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ABSTRACT

This booklet is based on a series of discussions and a colloquium held in response to Chicago's need to establish new priorities for society's capitalization and social service needs, which are increasingly in conflict: the public's decreasing confidence in the political, labor, and business leadership of the city: and the inadequate communication among the city's financial leaders, government, and special interest groups. The objectives of the discussions were to report on Chicago's fiscal and economic strengths and weaknesses: to increase public awareness and understanding of how the fiscal environment affects jobs, communities, and the quality of life, and to explore the mutual stake a variety of people and organizations have in Chicago's future. After presenting some background information on Chicago's fiscal situation, the booklet explores three policy issue areas: the South Loop New Town, the Economic Development Commission of the City of Chicago, and the allocation of Community Development Block Grant Funds. (MK)

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MANAGING CHICAGO'S URBAN DOLLAR

TRUST

Written by JUDITH D. FEINS

Based on a colloquium convened by
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PREFACE

This booklet is based upon a series of discussions that culminated in a colloquium at Livingston House on April 25 - 27, 1976. Although no consensus was reached in those discussions, some shared perspectives emerged which, we believe, are fairly represented by this booklet.

Those readers who expect the issues to be tied into neat packages with a clear set of conclusions and recommendations will be disappointed by this booklet, for this is merely a working paper, intended to stimulate further thought and discussion.

By the same token, the booklet does not reflect the personal views of the writer, Judith D. Feins; it is not a policy statement of TRUST, Inc., nor would all of the participants agree with all of the viewpoints contained here. What we all do share is the belief that "managing the urban dollar" is one of the most critical issues facing us -- an issue deserving of careful study and deliberation by everyone who is concerned about the future of our city.

We are most grateful to the colloquium participants, who shared their perplexities and uncertainties along with their considerable wisdom; to our special consultant, Judith Feins, who not only wrote this booklet but researched the data it contains, and who was an invaluable participant in the project from the planning stage through the conclusion; and to Woods Charitable Fund, Inc. and McDonald's Corporation, whose generosity made the project and the booklet possible.

JANET H. MALONE
Executive Director
TRUST, Inc.
Chicago, June 1976

INTRODUCTION

The Problem of Fiscal Scarcity

In the 1970s, the financial outlook of older and larger American cities has changed in a way that has been characterized as a shift "from the politics of distributing more to the politics of dividing less." In large part the shift has resulted from nationwide economic changes and population movements which have worked to the disadvantage of our older employment centers. But the governance of individual cities --particularly in the area of public expenditure policies -- has also contributed to the fiscal scarcity we now face.

We are encountering scarcity in the sense that our local economies and the municipal revenues which depend on them are growing at a much slower pace than even a decade ago, if indeed they are growing at all. Failing the reversal of these trends, "the politics of dividing less" will really be about learning to share as widely as possible and in the fairest way possible a "pie" of static size. This means that we face choices about resource use where before there were new "pieces" to distribute.

This booklet, part of the "Managing Chicago's Urban Dollar" project of TRUST, Inc., will assess Chicago's fiscal and economic viability in the light of both national trends and local conditions. Although Chicago is in many ways financially better off than other cities, such as New York, Detroit or Philadelphia, we cannot afford to be complacent. We are fortunate that we do have the opportunity to take stock of Chicago's situation and to consider how public and private decisions may deal with the potential problems so as to improve the present and future prospects for the fiscal health of the city.

Three major national trends have set the context for the changed financial outlook of older urban centers. First, there has been a significant slowing in the real growth -- the actual increase in production of goods and services -- of the Gross National Product, combined with accelerated inflation in 1973-74 and a deep recession in 1974-75. The total economic "pie" for the nation is expanding less rapidly than in the past, and the inflation and recession have combined to affect some parts of the economy more severely than others.

Second, differences in the rates of economic growth among regions of the country are increasing. The "sunbelt" (roughly the southern and southwestern states) has experienced significant increases in employment, family income, and wealth as a result of private sector and public sector investment, accompanied by a large migration of population from other

regions. This boom has occurred at the same time that the national economy has slowed, so that the sunbelt accounts for a very substantial part of national growth and other regions -- especially the northeast and north central areas -- account for very little.

A third national trend which particularly affects large older cities is the decline in manufacturing growth relative to the expansion of other areas of economic activity, especially the service sector. The cities of the northeast and midwest have an older economic mix in which manufacturing is a greater proportion than the national average. Although their economies will undoubtedly undergo some changes in mix, the diminished importance of manufacturing in the whole economy will still have an especially harsh impact on the viability of these urban centers.

Taken together, these national trends have an adverse effect on Chicago and other older cities because they point to fewer employment opportunities, less growth in family income and less investment by the private sector. These cities are becoming less able to perform their historic role of bringing rural and foreign immigrants and poor people into the industrial economy. And since local economic activity forms the base for financing local government, it is clear that fiscal restraint has become a necessity because fiscal scarcity is a reality.

In addition to these national trends, urban areas in the U.S. have been changing in ways which also put limits on the central city economy. To a great extent, the continuing expansion of suburban areas has been a result of population movement from city to suburb and business movement in the same direction. Between 1960 and 1970, in fact, many older central cities experienced net population losses because the rate of natural increase and the influx of people from rural areas and foreign countries no longer kept pace with the outflow to the surrounding metropolitan areas. Corporate relocations, the expansion of industrial facilities and the development of regional shopping centers all increased the suburban share of the metropolitan economy in terms of private investment flows as well as jobs and disposable income.

These changes affect the central cities in two ways which are salient for the problem of fiscal scarcity. The people and businesses who have left the cities represent potential economic activity and revenue lost; this is especially the case where expanding businesses have moved while static and declining ones have remained. At the same time, the people who have moved to the suburbs are generally younger, more educated and skilled, of higher income and less likely to be minority group members than those left behind; the people who are served by central city government are increasingly those less able to generate the economic activity and therefore the resources necessary to support local government, but at the same time more in need of city services.

Thus, shifts within metropolitan areas have meant increased demands on the public sector coupled with decreasing financial ability to meet them.

All of these factors are part of the Chicago picture and have affected its fiscal situation in varying degrees. This booklet seeks to explore the current situation as it reflects these trends and to identify areas of choice -- for public and private decision-making -- which will shape the availability of resources and the uses to which they are put in an era of urban fiscal scarcity.

The "Managing Chicago's Urban Dollar" Project

As we have noted, this booklet is part of a larger project of TRUST, Inc. called "Managing Chicago's Urban Dollar." The reasons for its publication can best be described by noting that two problems greatly reinforce the difficulties posed by fiscal scarcity. First, at a time when leadership and consensus are very much needed to establish new priorities for society's capitalization and social service needs -- and these are increasingly in conflict -- the public's confidence in our political, labor and business leadership is low. And, as indicated by the growth of the consumer movement, the traditional market place is no longer trusted as a means for making economic decisions about production and distribution. Second, there is inadequate communication among the major financial actors (such as business and industry, insurance companies, banks, and savings and loan associations), the city government, and such interest groups as labor, community organizations and "public interest" or civic groups. Each makes decisions that seem rational from its perspective, based on its assumptions, but the aggregate effect of all these decisions may be irrational and destructive not only of the public good but even of longer-range self-interests.

Therefore, the project's principal objectives have been:

* to report on and illuminate Chicago's fiscal and economic strengths and weaknesses;

* to increase public awareness and understanding of how the fiscal environment affects people's jobs, communities and the quality of life in Chicago;

* to explore the mutual stake which diverse interests and actors have in the future of our city.

This booklet is meant to provide a common background on Chicago's fiscal situation for its citizens, business community, public officials and media. We hope it will both deepen understanding of the factors which have contributed to the fiscal constraints we now face and

help to focus attention on the choices to be made. By exploring three public policy issues which raise most of the vital points about "the politics of less," it can aid in identifying the problems and potential of Chicago's human economy and physical structure and start to examine the roles that public and private actors might play in developing and implementing solutions.

In substance and organization, this booklet closely follows the proceedings of a two-day colloquium on "Managing Chicago's Urban Dollar" which was held in April 1976. The colloquium brought together representatives of Chicago financial institutions, businesses, city government, community and "public interest" organizations. (An agenda and list of participants can be found at the end of the booklet.) Unfortunately, no labor representatives were able to attend.

The colloquium provided an opportunity to share information, agendas and viewpoints, and to present some of the relevant and exciting analysis of these issues being carried out in the local academic community.[1/] Most important, it produced a frank and intensive exploration of the attitudes and options of major actors within the framework of fiscal scarcity and slowed economic growth. To the greatest extent possible, we hope to communicate here the insights gained in the colloquium sessions.

1/ The work of Donald Haider, of the Northwestern University Graduate School of Management, has been particularly stimulating. Indeed, his insights into the problem of urban fiscal scarcity and New York's crisis situation have been central to our effort and understanding. (See his listing in Section 2 of the bibliography, "For Further Information," at the back of this volume.)

CHICAGO'S FISCAL SITUATION: SOME BACKGROUND INFORMATION

What Are Fiscal Concerns?

To some degree, current attention to urban fiscal problems throughout the country is a result of the financial crisis which New York City experienced in December 1975.

New York City's borrowing and budgeting practices up to that time represented an unsuccessful attempt to treat the symptoms of a deeper set of problems -- problems which neither New York's business and financial community nor its citizenry were willing or able to face. There was inadequate information about the city's economy and its fiscal situation. Without such information, intelligent choices could not be made. As for the business and financial community, it was not only somewhat uninformed but uninterested and indifferent to the city's financial difficulties. All of New York City's interests are now paying the price of not dealing with the issues of fiscal scarcity before the crisis point was reached. The price is sharply increased taxes and curtailment of services.

New York City's crisis of December 1975 occurred when it was unable to sell its bonds in the municipal bond markets (that is, to borrow money on a long-term basis). Without the proceeds from the scheduled bond sale, the City faced the inability to meet its payroll, pay its suppliers, repay outstanding debt or some combination of all three. If unable to repay the principal on old bonds which were then maturing, the City would have been in default and bankruptcy would have become an actual issue.

One way to approach the general realm of fiscal considerations is to distinguish New York's immediate crisis and its context from the underlying causes. The context in which New York could neither sell its bonds nor raise short-term cash was a persistent, widening gap between revenues and expenditures in the city budget. Financing the gap by long-term borrowing implied that revenues would eventually catch up with spending -- in time to repay the debt -- but doubts on that point were increasingly widely expressed. In addition, it is not sound fiscal practice to finance current operations by long-term borrowing because operating expenditures do not produce an asset with value to offset the liability (the debt). Thus the immediate crisis was based on New York City's financial condition in terms of its ability to meet its obligations and maintain its everyday operations.

These two interrelated areas -- the balance of revenues and expenditures and the ability to borrow -- are the areas which we ordinarily consider "fiscal." Most of the common ways to measure a city's fiscal health have focussed on budget and debt. But to understand what is happening to budget and borrowing in older cities, and especially in Chicago, we must go a step further.

Underlying the revenue side of the budget question is each city's tax base: the base against which taxes are levied and collected. In the U.S., local governments are primarily financed by taxing real estate--the land within their boundaries and the improvements (houses, stores, factories, etc.) built upon it. In addition, many local governments receive taxes on the sales generated in their jurisdiction, and various other fees or "levies" on local activity may be collected. Some cities also have their own income tax on residents or on income earned within their borders.

The key point about the tax base of local government in the U.S. is that it is based on geography. The geographical jurisdiction determines which land and which activities are part of a city's tax base and are thus available for raising revenues to finance that city's government operations. Every time there is a purchase made, a job filled, or a building constructed, the question for local government is where each happens.

To simplify a bit, the places where more of these things are happening are places with growing tax bases and potentially sound fiscal conditions. Towns and cities with lagging sales or construction have fewer resources to draw upon. In reality, local governments depend on growth in their tax bases -- new plants, more jobs, additional sales--to meet the rising cost of providing city services and to expand the services.

At a minimum, local governments need just enough growth in the tax base (through rising property values, for example, or increasing dollar sales) to keep up with inflation in the cost of providing services. But citizen needs and expectations create a demand for expansion of city government activities, and the expansion can be paid for without increases in tax rates only if construction, employment, and retail markets are growing in that jurisdiction. Otherwise, smaller school class sizes or increased police protection, for example, must be directly financed by heavier taxation. But higher tax rates can in turn discourage building or hiring.

New York City encountered an imbalance of revenues and expenditures in part because of a declining tax base. It was losing jobs and business and shrinking in middle-income population, but not curbing ex-

penditures. Unchecked municipal union demands contributed to sharply rising costs, and each new tax increase produced less revenue than needed because the base eroded further. One of the more important questions posed by urban fiscal scarcity is whether older cities can learn to adjust to slow-growth or no-growth tax bases without severe disruptions of their daily operations. New York's experience makes clear the difficulty of doing so.

A geographically-based local government tax system is not the only possible arrangement, in theory. One alternative would be to have a portion of an expanded federal income tax take the place of local taxes and be earmarked for return to local governments in proportion to their needs (however defined). With all the issues such an arrangement might raise, it would at least break the geographical link which causes local governments to always be in competition with each other for tax-generating resources.

> It is because we have territorially linked the amount and location of (economic) growth to our systems of public finance and governance that we experience the acute problems of imbalance that now plague us: between the cities and the suburbs, between the metropolitan areas and the rural regions, between the regions of the country. 2/

Who lives within a local government's jurisdiction and what activities take place there are also key factors in the expenditure side of the budget. Although there are wide variations in the range of services offered by local governments, the level and mixture of services are related in some degree to both the composition of the local population and the type of local economy. (For example, more children in the population usually means larger public school expenditures; more commercial activity usually means more spending on traffic control.) Thus, the portion of the local population and economy within a particular municipality's border is the ultimate base upon which local fiscal viability rests. And even in discussions of the fiscal area alone, questions about the condition of the local economy are never far away.

2/ Ralph R. Widner, "Balanced Growth for the Northeast: Is It Possible?" p. 11.

Chicago's Fiscal Arrangements

We present here a rather brief overview of Chicago's fiscal structure and condition. The purpose is to provide a foundation of information that will be useful in the later discussions of policy issues, where some of the underlying problems will be explored more thoroughly.

There are ten taxing jurisdictions which include part or all of the City of Chicago. 3/ Each of these bodies can levy against the property tax base of the city and each receives a portion of tax revenues according to the tax rate it has set. In general our references to Chicago's fiscal condition will include all these bodies. It makes sense to combine them because they all have claims against the capacity of the local tax base and so are affected by changes in the condition of local economic activity, population and land use. However, we can focus on individual jurisdictions where their revenues or fiscal policies warrant separate attention.

Property Taxes:

Figure 1 shows the combined property tax rate for property within the City of Chicago. The Board of Education's is the largest levy (estimated at $ 3.475 per $ 100 equalized assessed valuation 4/ for the 1976 budget) with the City of Chicago following at $ 2.992. The rates have all

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3/ The jurisdictions are as follows:
Coterminous with City boundaries: City of Chicago, Board of Education, Park District, City College system.
Coterminous with County boundaries: Cook County, Forest Preserve District, Health and Hospitals Governing Commission, Metropolitan Sanitary District (except certain suburban areas.)
Chicago Urban Transportation District: Loop and adjacent areas.
South Cook County Mosquito Abatement District: County from 87th St. south.

4/ Assessment is the practice of estimating the value of property. In Cook County, assessments are based on a judgment of the market value of real estate. Assessed valuation is calculated as a certain percentage of a property's market value, with the percentage depending on how the property is used. Under the County's classification ordinance, vacant land and small residential properties are assessed at 22 percent, income-producing rental residential properties of over six units at 35 percent, and commercial and industrial facilities at 40 percent of full market value. In addition, the state Department of Local Government Affairs applies an equalization factor to each county's assessed value to compensate for differences in assessment methods. The local tax rates are then applied to the equalized valuations.

shown a gradual rise over the twelve years from 1964 to 1976, but the Board of Education's portion has expanded the most. For 1974 property taxes (payable in 1975), the combined rate was about $ 8.56 per hundred, compared to $ 5.37 in 1964.

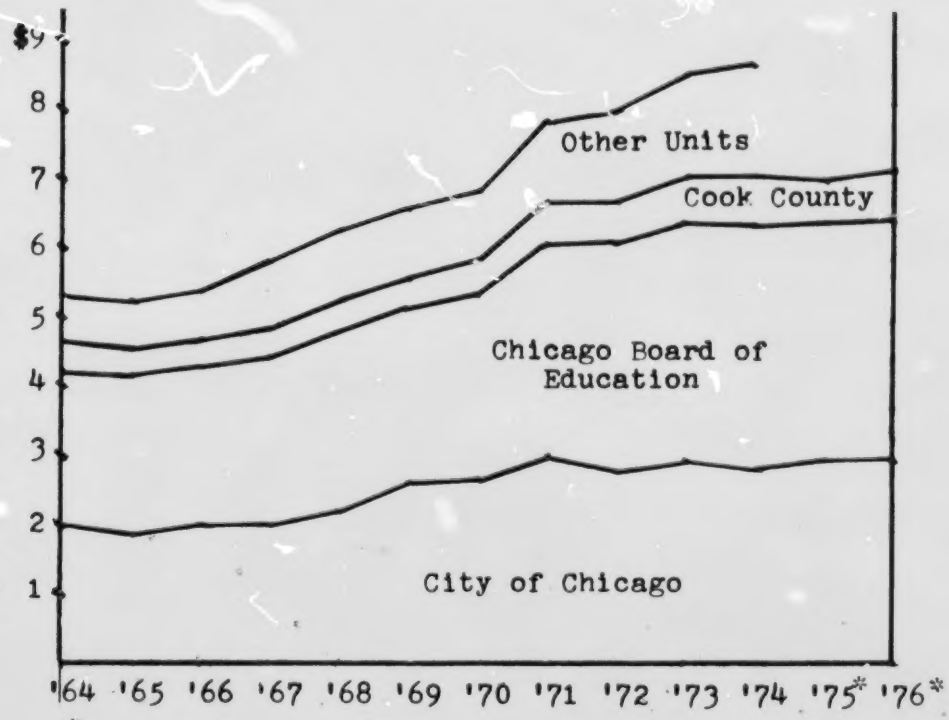

Figure 1. PROPERTY TAX RATES FOR CHICAGO
By Unit Levying Tax.
(Dollars per $100 Equalized Assessed Valuation). Source: Civic Federation.
* Estimated.

These property tax rates were being levied against a tax base consisting of real property, railroad property, and personal property. Real estate was by far the main component, accounting for over three quarters of the 1973 base, and growth in real estate values is the most significant indicator of a healthy fiscal potential. Between 1964 and 1974, at the same time that the combined tax rate rose by $3.19 per hundred, the assessed value of Chicago real estate was also rising by 10.8 percent.

Figure 2 shows the change in assessed valuation for Chicago and the rest of Cook County between 1974 and 1975. The real estate base for the city rose 2.38 percent, while that for the county as a whole rose 4.23 percent.

Cook County real estate assessments

Suburban

Townships		% Chge
Barrington	$ 34,269,557	+ 5.07
Berwyn	106,888,130	+ .24
*Bloom	255,455,491	+21.90
*Bremen	208,237,760	+22.56
*Calumet	57,352,020	+12.04
Cicero	165,159,395	+ .53
Elk Grove	399,246,034	+ 5.28
Evanston	203,497,137	+ 1.53
Hanover	98,702,434	+ 5.28
Lemont	26,429,305	— 4.32
Leyden	466,064,311	+ 2.62
Lyons	413,514,937	+ 2.30
Maine	485,297,366	+ 3.14
New Trier	252,797,944	+ .86
Niles	517,992,837	+ 2.21
Northfield	300,059,399	+ 6.87
Norwood Park	87,467,390	+ .40
Oak Park	135,410,721	— .78
*Orland	79,833,687	+58.75
Palatine	212,810,733	+ 3.54
Palos	127,664,743	+ 6.86
Proviso	467,919,155	+ 2.03

Townships		% Chge.
*Rich	168,183,596	+22.27
River Forest	47,789,553	— .31
Riverside	50,542,032	+ .63
Schaumburg	285,844,672	+11.71
Stickney	195,525,518	+ 2.90
*Thornton	491,139,201	+17.42
Wheeling	369,935,230	+ 4.08
Worth	454,373,854	+ 2.38
County totals	$ 7,165,404,142	+ 6.01

Chicago

*Hyde Park	$ 936,577,487	+ 1.66
Jefferson	1,169,195,400	+ .88
Lake	1,171,695,431	— .24
Lake View	607,587,523	+ 1.41
North	583,390,331	+ 4.55
Rogers Park	197,407,158	— .20
*South (Loop)	1,126,371,919	+ 9.72
West	879,271,219	— .12
City totals	6,671,496,468	+ 2.38
County totals	$13,836,900,610	+ 4.23

*Townships reassessed in 1975

Figure 2. Source: Cook County Assessor's Office as reported in Chicago Tribune, March 26, 1976.

The different rates of growth between assessed valuations in Chicago and in the rest of Cook County can have a real effect on the tax burden of city residents. For example, while an increase in the cost of forest preserve maintenance for the county might be covered by the additional revenues from a larger base taxed at an unchanged percentage, a similar increase in city park maintenance costs might have to be covered by raising the Park District's tax rate because the needed additional revenues were not coming from a growing base. It is very often the case that local governments with fewer or slower-growing re-

sources must tax them much more heavily, and in this way taxpayers in poorer jurisdictions do pay more.

There is a fourth factor, in addition to assessed valuation, equalization and tax rate, which affects the amount of revenue that Chicago area governments derive from the property tax base. This is tax delinquency. The non-payment of taxes owed is an increasing factor here as in other cities; although a substantial part of the uncollected taxes is on personal property (which tax is likely to be replaced in the next few years because it is so difficult to assess and collect), real estate delinquencies have also been rising. Figure 3 shows the increasing rates of delinquency since 1969.

Taxes Billed

	Real Estate	Railroad	Personal Property
1969	660, 980 626	10, 565, 320	198, 398, 232
1970	739, 650, 351	10, 679, 012	200, 397, 452
1971	875, 954, 298	11, 844, 552	240, 066, 545
1972	894, 365, 968	12, 794, 052	253, 384, 228
1973	907, 736, 859	13, 771, 923	257, 971, 258

Percent Uncollected

	R. E.	R. R.	P. P.	Combined
1969	3.5	9.9	43.2	12.6
1970	3.9	10.1	39.6	11.5
1971	5.0	10.0	44.3	13.4
1972	4.2	10.8	48.8	14.0
1973	4.4	21.1	46.1	13.8

Figure 3. TAXES EXTENDED AND TAXES UNCOLLECTED: ALL CHICAGO GOVERNMENTAL UNITS *, 1969 - 1973.
Source: Civic Federation

* Includes City of Chicago, Board of Education, City Colleges, Park District, Sanitary District, Cook County, Forest Preserve District, and South Mosquito Abatement District, plus Health and Hospitals Governing Commission for 1972-73.

Rising property tax delinquency has been due in large part to changes in the economics of rental housing. Fuel and maintenance costs have climbed steeply since 1970, as have assessments of larger rental buildings (over six units). But landlords may not be able to find tenants who can afford the rent to cover these costs. So, in order to pay for fuel or maintenance, and sometimes in order to make a profit, property taxes are left unpaid. Since it now takes about ten years for the state to gain possession of the property in compensation for unpaid taxes, the city has as yet no effective way to diminish the revenue gap caused by delinquencies.

Other Revenue Sources:

Property taxes, although they are the single largest component of revenues for Chicago-area local governments, are not by any means the only source. The two general purpose governments (City of Chicago and Cook County) each levy a variety of other kinds of taxes, as well as deriving income from fees, licensing, user charges and so on. In addition, transfer payments from the state and federal governments make up varying proportions of their budgets. Figure 4 shows the portion which each category contributed in actual 1970 revenues and in the estimated 1975 and 1976 figures for the City of Chicago only. Non-property taxes seem to be the source expanding most steadily, while property taxes have fallen as a percent of all revenues and non-tax revenues have changed little. Both the City and the County have levied controversial new non-property taxes recently: the "employee head tax" and the liquor tax, respectively.

	1970 (actual)	1975 (projected)	1976 (projected)
Property taxes	43.8%	33.8	32.3
Other taxes	28.6	32.4	33.9
Federal revenue sharing	0.	7.4	6.8
Other non-tax revenues	27.6	26.4	27.0
Total	100.0	100.0	100.0

Figure 4. REVENUE SOURCES FOR THE CITY OF CHICAGO
(Percent Distribution)

Another way to look at revenues for Chicago is by the kind of economic activity generating them. Property taxes are, of course, based on land use (close to 90 percent of collected property taxes in 1973 were from real estate rather than railroad or personal property). Fees and taxes on business activity are a second category, including, among others, the head, retailers' occupation, cigarette, amusement and hotel taxes plus licenses and fees. In addition, there are funds transfers from the state and federal governments: primarily revenue sharing funds and local shares of state income and sales taxes. On this basis, Figure 5 shows the changing proportion of revenues for the City of Chicago Corporate Purposes Fund, which covers the "housekeeping" functions of police, fire, streets and sanitation. Since 1970, property taxes have fallen in percentage, federal and state funds have expanded and then leveled off, but business-generated revenues have substantially increased as a proportion of all sources. In addition, of course, business pays a significant portion of the property tax. Because there is a limit to how much "tax shifting" can be done without accelerating the loss of businesses and jobs, Chicago may have to turn to different kinds of taxation in the future.

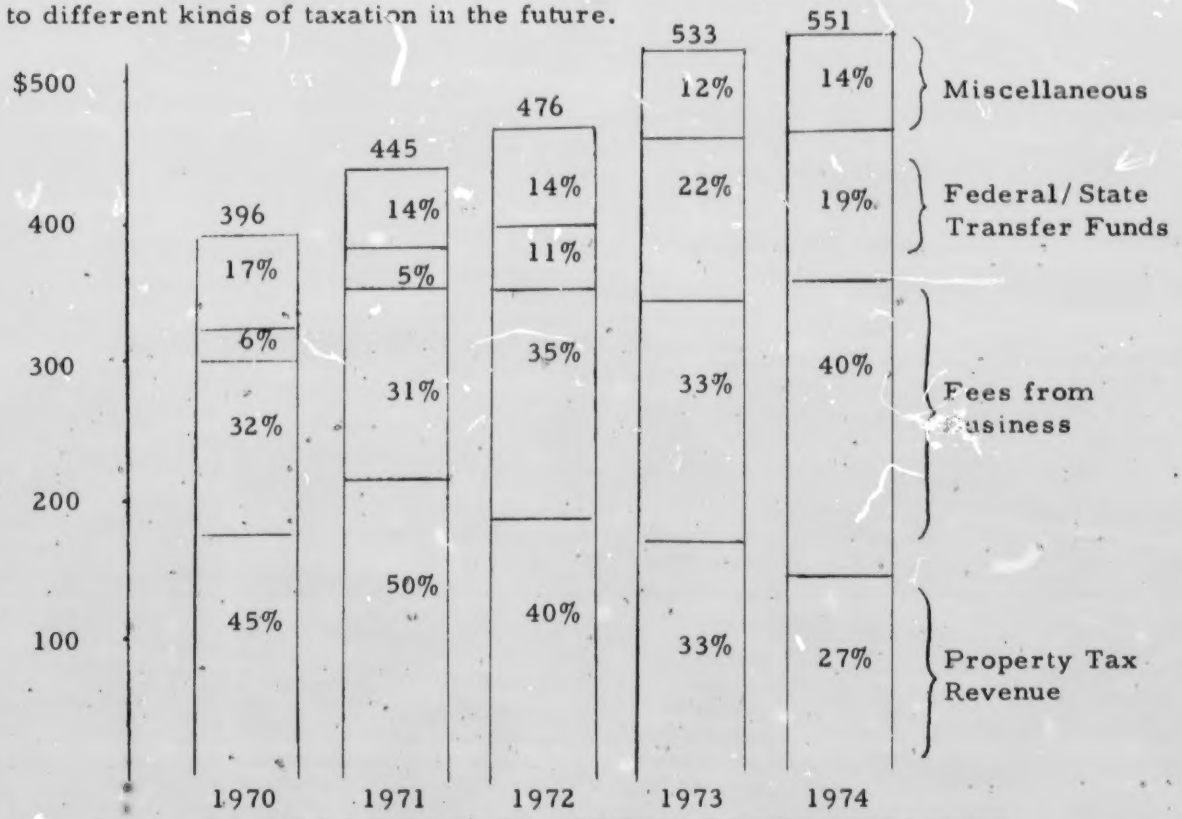

Figure 5. CITY OF CHICAGO CORPORATE PURPOSES FUND: SOURCES OF REVENUE ($ millions).
Source: Reports prepared by the First National Bank of Chicago

Indebtedness:

Indebtedness is the second major element in the fiscal equation. Governments -- local, state and federal -- borrow money for two main purposes. Short-term borrowing to smooth out the flow of revenue from tax collections is a widely used procedure which usually does not generate difficulties. But long-term borrowing -- raising funds to invest in new capital facilities or to improve existing ones -- is scrutinized carefully because it generates a claim on future resources; the city and the bond buyer must both be confident that those resources will support repayment.

On the basis of commonly-used measures of debt load, Chicago's record is rather favorable. Figure 6 shows the combined long-term debt of all the overlapping taxing bodies in Chicago, compared to other large older cities. The age of cities is a significant factor because long-term borrowing is usually for capital improvements, and the aging physical structure of a city can generate increasing needs in this area. (The cities in the seven-city average in Figure 6 are Boston, Philadelphia, Baltimore, Pittsburgh, Cleveland, Detroit and St. Louis. Per capita overall debt adjusts for population differences between them.)

	Chicago	New York City	Seven City Average
Overall Debt Per Capita	$452	$1670	$519
Overall Debt as a Percent of Estimated True Value	4.5	10.0	6.7
Overall Debt as a Percent of Per Capita Income	11.9	34.9	16.3

Figure 6. A COMPARISON OF MUNICIPAL INDEBTEDNESS, 1974.
Source: First National Bank of Chicago, Bond Dept.

In the table above, the last two lines give an idea of general obligation indebtedness in relation to revenue-generating capacity. Taking overall debt as a percent of the true market value of real property, and

as a percent of current per capit income, Chicago compares favorably with New York City and the seven city average. Of course, this does not measure resources at the points in time when borrowings must be repaid, but it is a rough indication of fiscal health. Similarly, Illinois's per capita debt of $138 represents a much smaller burden than New York State's roughly $ 800.

In addition to a favorable per capita debt figure, the retirement schedule for Chicago borrowing is well synchronized; repayment dates are not clustered in such a way that excessive demands are made on resources (or on new borrowing) at any particular point in time. And, finally, the Chicago-area governments do have unused borrowing capacity; this provides us the breathing space to decide how new capital funds can be used most advantageously to cope with fiscal scarcity.

The Role of Intergovernmental Transfers

Having briefly looked at Chicago's revenue and debt situation, we turn to a discussion of fund transfers from the state and federal levels to local government. This area merits special attention because the State of Illinois is facing fiscal constraints itself and because changing federal policy has a potentially large impact on Chicago's finances. As sources of revenue which are not dependent on the local tax base, intergovernmental transfers can help relieve local tax burdens but can also make them worse.

The State of Illinois

The State of Illinois plays two important roles with regard to Chicago's fiscal viability. First, there is the actual funding by the state of a portion of local government activity. Education is a significant example of this, as is welfare; Illinois bears the burden of welfare costs alone, while in most other states it is either carried by municipalities or shared between the state and local levels.

The State's second role is connected with the maintenance of a favorable climate for the retention and attraction of economic activity. Clearly this is an area in which local governments and states share responsibility, but the economic health of the whole state vitally affects that of the towns and cities within it.

In the funding area, an issue which is of great importance for Chicago is the State's commitment and ability to absorb future increases in the cost of education. Because the Illinois budget is in somewhat precarious balance and no additional taxes are scheduled for this election year, the State has not met its original "full funding" schedule; local jurisdictions including the Chicago Board of Education will have

to carry public school operating costs at a level somewhat greater than anticipated. As a consequence of this, but primarily as a result of the contract settlement with the Chicago Teachers' Union, the Chicago school system's expenditures exceeded its resources to such an extent that the schools were closed early.

According to the First National Bank of Chicago, 5/ there are some potential problems underlying Illinois's shaky budget balance. The state's population and labor force have grown at a very slow pace over the past five years, both in absolute terms and in comparison with the rate of expansion for the period 1949-1969. Growth of personal income for state residents is below the national average. These factors and the lagging growth of non-agricultural employment result in large part from the decline of manufacturing in the national economy; Illinois, as a state with an older economic mix, is subject to difficulties like those of older cities despite the state's substantial agricultural base.

More important, perhaps, than the current state of the economy is the issue of Illinois's attitude toward business. In the wake of a substantial increase in the cost to employers of state unemployment compensation system payments, there has been some discussion over the business climate here in comparison with other states. Of course, the southern and southwestern states have garnered the lion's share of industrial growth, in part through low taxes and non-unionized labor, but it is said that Illinois is not even doing as well in attracting and retaining jobs as are some of its older industrialized neighbors. Whatever negative effects the State's policies might have in the area of business climate will make Chicago's fiscal picture more problematical.

The Federal Government

In the area of urban problems, the federal government's activist stance of the 1960s is no more. Since 1968 there has been a steady dismantling of programs which provided special assistance to large cities; the "new federalism" has substituted generalized transfers to local governments of all sizes. And the volume of federal grants to local governments is not only spread over more jurisdictions than before but is also slowing in growth.

5/ First National Bank of Chicago, State of Illinois Research Report, April 12, 1976.

	1967-8	1968-9	1969-70	1970-71	1971-2	1972-3	1973-4
Current $...	15.7	10.3	20.7	18.8	28.5	8.3	8.1
*Constant $... (1958)	9.5	3.9	12.1	12.2	22.9	2.0	-1.9

Figure 7. PERCENTAGE ANNUAL INCREASE IN FEDERAL GRANTS IN AID. (Billions) 1967 - 1974.
*Deflated by implicit GNP deflator for State and local Governments. Source: Bureau of Economic Analysis, Department of Commerce.

From an average annual increase of 18.5 percent for 1967 - 68 through 1971 - 72, 1972 - 73 and 1973 - 74 saw increases of only about 8 percent. Figure 7, above, shows that federal transfers are actually contracting in real dollar terms (adjusted for inflation).

Despite the inclusion of "hold harmless" clauses in the legislation which has changed federal grant policies (so that jurisdictions already receiving federal grants do not lose money under new funding formulas), the cities which received substantial money under programs targeted for inner city problems have been put at a disadvantage. In its change from categorical funding (grants for specific purposes) to block grants which cover a group of related uses, the federal government has moved away from using transfers to compensate cities for the extra burdens of concentrated low-income and minority populations. Thus, revenue sharing has provided money to build public tennis courts in some suburbs while it provides only minimal help in meeting basic service needs elsewhere. The federal equalizing role is shrinking at the same time that city-suburban disparities continue to grow.

The dismantling of federal programs has another problematic effect. When a program ends, the people it has served and the people it has employed do not disappear. Cities are often left to continue providing the services out of their own budgets, since parts of their citizenry have become dependent on the availability of (for example) subsidized day care. Since the older and larger cities had more of these programs to begin with and continue to have concentrations of dependent populations, their own scarce resources must stretch even further.

In addition to the shift away from programs designed for inner-city problems, the federal government has played a significant part in the shift of population and economic growth away from the northeast and north central regions of the country. The pattern of federal employment and expenditures, especially in defense, heavily favors southern and western locations; many of the older military installations in

the midwest and northeast have been shut down. In addition, federal transfer payments to individuals -- Social Security is a prominent example -- increasingly flow to the sunbelt states. As concern has grown over economic stagnation of older areas, it has been suggested that the federal government plan its expenditures to help balance out the rates of growth and thereby help stabilize the economies of northeastern and midwestern states. 6 / An example would be to locate new federal office complexes in these regions instead of the southwest and west.

In one area at least, funding not assumed by the federal government is probably as significant as its expenditures. With urbanization of the national population, poverty -- once a heavily rural phenomenon -- has become concentrated in urban centers. Ironically, the sunbelt states, from which many of the poor and minorities migrated to the north and east in the 1950s and 60s, are the states whose economic growth could more easily sustain expanding welfare costs. This movement of the poor has contributed to the steady narrowing of the regional income gap which is shown in Figure 8, below.

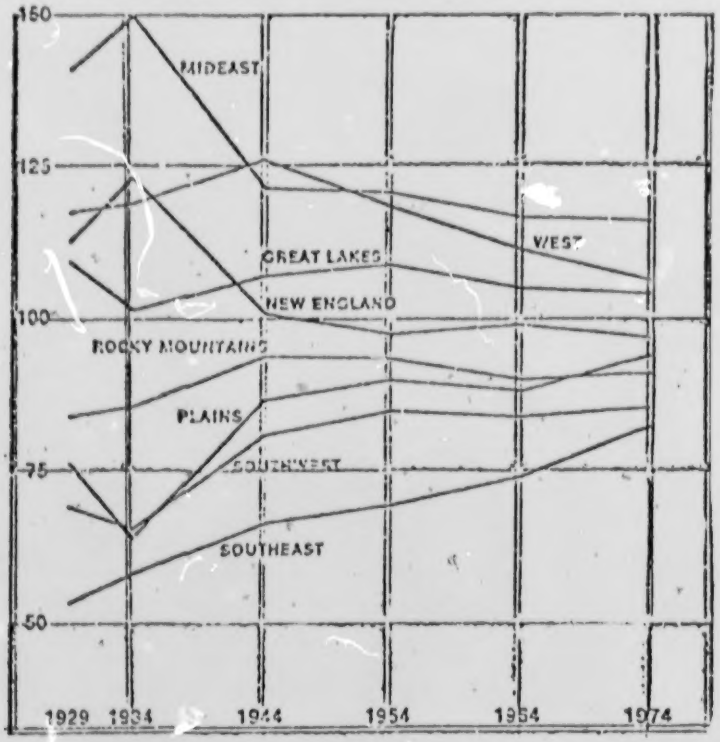

Figure 8. THE REGIONAL INCOME GAP, 1929-1974. (Per Capita personal income as a percentage of U.S. average.)

6 / Thomas Muller, Growing and Declining Urban Areas: A Fiscal Comparison, pp. 103-04.

Due to the same population shift which has narrowed the regional income gap, the burden of welfare payments rests disproportionately on states and local governments in the older industrialized areas of the country, those which can least afford these costs. It has been suggested that federalization of the welfare system could compensate for uneven geographical distribution, with funds coming from a national pool and payments equalized in proportion to local or regional costs of living; the political support for such a policy, however, does not now exist.

The role of the federal government in the fiscal situation of older cities thus seems to be an exacerbating one. Federal transfers have slowed in growth just as economic scarcity has begun to tell on local government budgets. Frequent policy changes have made federal grants an undependable funding source for local governments. The aggregate effect of federal policies and funding patterns has reinforced the regional growth differences which are further sapping the economies of older urban areas.

Problem Areas for Chicago's Fiscal Health

Having introduced the fiscal realm and its relation to the local economy, and having highlighted the relation of local budgets to state and federal spending policies, we can now begin to identify some areas of potential difficulty in Chicago's fiscal situation. The discussion of problem areas at this point will only introduce the issues; they will be explored in depth in the following sections on public policy choices.

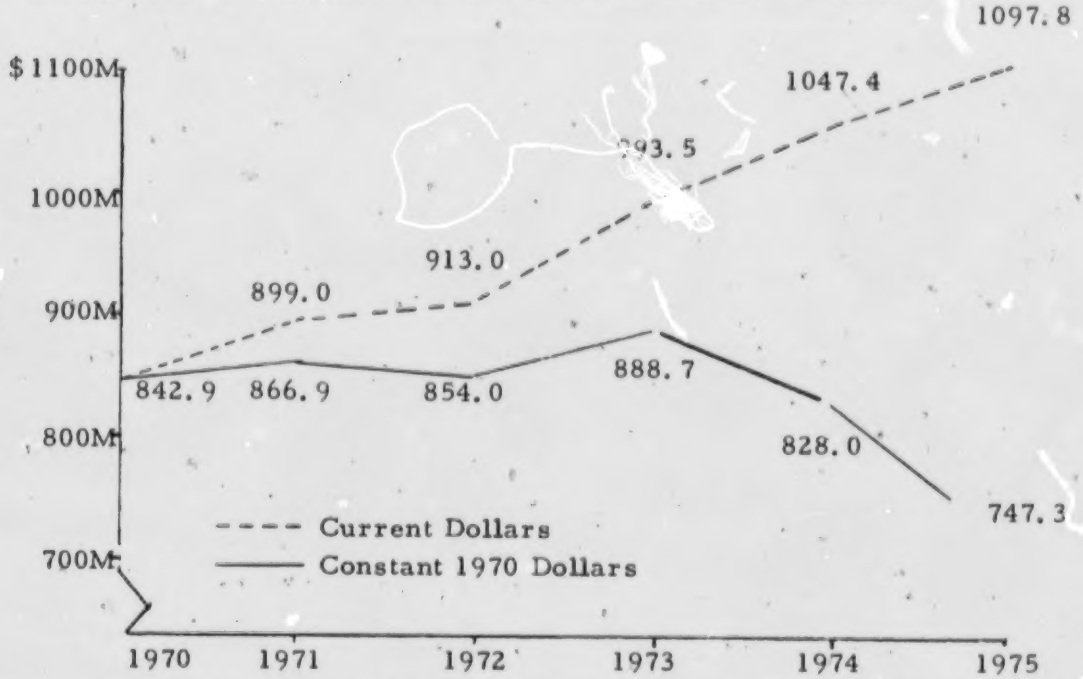

Figure 9. CITY OF CHICAGO BUDGET INFLATION IMPACT
Source of figures: Budget Division, City of Chicago

Persistent inflation in the nation's economy has had severe consequences for Chicago's fiscal situation. The most direct consequence is a decline in the real purchasing power of the city's budget despite substantial dollar increases in budget in budget amount. According to the City's Budget Division, and as shown by Figure 9 above, inflation has turned a budget rise of 10.5 percent in current dollars from 1973 to 1975 into a decline of 15.9 percent in 1970 constant dollars for the same period.

State and local governments have in fact lost overall purchasing power faster than other sectors of the economy. This is because government services are labor-intensive, and salary and fringe benefit increases are not easily absorbed by productivity improvements. In 1965, the index of the GNP price deflator (with 1958 as the base, 100) stood at 110.9, while the index for state and local government spending stood at 123.4. Between 1965 and 1971 the gap between them widened steadily until state and local units were bearing price increases 34.4 percent greater than the economy as a whole.

Chicago-area governments, like many others, have used increases in fringe benefits -- especially pensions -- to raise employee compensation without proportionally raising current expenditures.

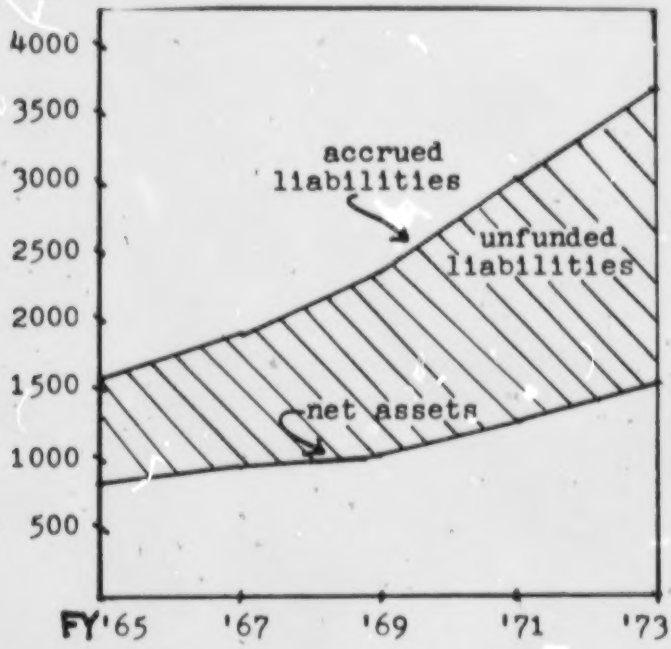

Figure 10.

GROWTH OF ASSETS AND LIABILITIES OF NINE CHICAGO AND COOK COUNTY PENSION FUNDS.

(Millions of dollars.)

Source: Illinois Department of Insurance Reports of Examination.

The difference between the total accrued liabilities of the nine local pension funds (the total of employer contributions owed to the funds based on the benefits guaranteed to employees when they retire) and the portion of employer contributions already paid into the funds has been

increasing since 1965. But this gap of unfunded accrued liabilities has grown particularly fast since 1970, as the graph in Figure 10 shows.

Inflation is a factor in the pension picture both because it has spurred the expansion of benefits and because it means that future contributions to the funds will be made in less valuable dollars than our current ones. Unfunded liabilities amount to a long-term borrowing device with the "lenders" (the employees) receiving no interest and being unable to deny the loan on the basis of future fiscal prospects. These liabilities are a major area of potential problems for Chicago.

In addition to the general impact of inflation on the budget and the specific problem of unfunded pension obligations, Chicago can anticipate increased scrutiny when it floats general obligation bonds in the future. In part this is to be expected because of the nervousness resulting from New York City's near miss. But a more significant long term factor is the increasing competitiveness of the capital market.

Every sector of the economy has expanded its borrowings at a significant pace since 1970. Interest rates were driven up -- and did not fall back to former levels with the 1975 recession. Of great importance, also, is the fact that the federal government accounted for fully half the 1975 increase in credit outstanding in the U.S. economy. Local governments can anticipate substantially more costly borrowing in the future, with much greater quality discrimination, because they are bidding in a tighter and warier market. Even Chicago, with an excellent bond rating, is likely to find itself devoting more of its budget to debt service than the current 7 to 8 percent.

The other side of the public borrowing coin -- private investment -- is a final area of potential difficulty for Chicago; indeed, it is an underlying factor in the whole question of the city's economic viability. As an older city, Chicago is faced with the need to renew a number of aspects of its physical facilities. Its housing requires a steady flow of mortgage investment in order to preserve sound buildings and upgrade or replace deteriorating ones. Its factories and warehouses need a renewed flow of capital to modernize their capacity and adapt them to current uses. Its commercial facilities, and especially strip shopping areas, are languishing for lack of capital to modernize their scale. These are areas of private investment needs aside from the physical condition of public facilities like schools, curbs, streets and parks which generate their own improvement needs.

We have named so far only the areas in which private investment is necessary to stabilize or maintain the condition of existing structures. Cities are, from one perspective, massive concentrations of capital investment. Assets of so large and long-lived a nature as housing or com-

mercial space differ from the way we might think of capital equipment such as factory machinery, which has a relatively predictable period of economic usefulness. Given a steadily renewed flow of private investment, in the form of readily available mortgage money or regular allocations for plant improvements, cities as physical beings can go on almost forever. But the basic economic situation must be strong enough to make such investments adequately profitable.

From the standpoint of fiscal considerations, private investment is a critical component of sustained or growing value in the tax base. In order to be able to continue meeting local service needs despite rising costs, each city has a choice: generate compensating growth in the tax base or raise tax rates. But the latter is not a viable long-run option, because a heavy and growing tax burden in comparison to other locations for housing, factories, offices or stores will only contribute to the outflow of population and economic activity. Therefore, some real growth in the tax base is a necessity.

A steady flow of replacement capital is one requisite for a growing tax base, so that obsolete or deteriorated facilities can be written off without a net loss of housing or economic capacity. But the flow of credit to maintain the usefulness (and therefore the economic value) of existing facilities which are not obsolete, and the flow of new credit for construction of additional housing units or commercial space, must be added to the replacement level in order for the capacity of the tax base to provide sufficient revenue to maintain or improve city services.

The argument that sustained private investment is necessary for Chicago's long-term economic viability does not rest merely on local government's fiscal needs. There is a much more potent argument to be made: that the best way for holders of existing investments in Chicago to maintain the value of those assets is to continue to invest here. When corporations build or expand or improve their Chicago facilities, they are investing in their own market as well. This is certainly true of their labor market, since the quality of the labor force responds to the availability of employment opportunities. It may also be true of a market for local sales, where the multiplier effect of a private sector job increases disposable income and stimulates new business. A similar reinforcing effect is generated by mortgage credit from financial institutions; market demand is translated into property improvement and growing values and more opportunities to make strong loans.

The availability of private capital for investment in central cities and particularly in Chicago is not a simple matter, and we seek here only to pose the issue and lay a groundwork for further discussion. To identify capital availability as a potential problem for Chicago, and one

which can have very broad consequences, is only to say that we must consider not only public expenditures and investment -- and local governmental "fisc" in its strict definition -- but also private expenditures and investment. Both factors are important in our assessment of Chicago's economic viability and the prognosis for its future health.

THREE POLICY ISSUES

Our purpose in chosing three policy issues as an approach to Chicago's fiscal prospects was not to second-guess the decision makers, but to ground our discussions in reality. We are concerned that decisions be analyzed within the emerging context of fiscal scarcity. The purposes of this section are, therefore, threefold:

* to establish the links between each current policy issue and the question of Chicago's viability;

* to move from the preceding introduction toward a recognition of the interrelationships among policy choices for both public and private sectors;

* to help establish a shared understanding of what is at stake in current choices and how achieving a sounder fiscal future might be approached.

The three policy issues to be discussed have in common an immediate impact on the physical facilities of the city, accompanied by significant economic and social consequences for Chicago and its residents. The South Loop New Town plan is a proposal for developing the area of railroad yards between Congress Street and Cermak Road into a residential community; its most obvious link to fiscal viability is its potential effect on the residential real estate tax base, but it is also seen as an effort to stabilize the middle class in the city. The Economic Development Commission's powers give the City a way to organize or participate in industrial and commercial redevelopment projects, but their planned use is to aim primarily at expanding job opportunities. The City's decision on the allocation of federal Community Development Block Grant funds between physical improvements and service provision affects not only the rate at which housing rehabilitation will proceed in Chicago neighborhoods but also the jobs and incomes of employees of phased-out federal programs.

Fiscal viability is a condition of people's lives as well as of the physical and economic city, and the policy issues were chosen to touch both. In this way, we hope to do more than just acquaint the reader with specific issues. We seek to establish a broad context in which the links between policies and problems, choices and actors, costs and benefits can be understood.

The South Loop New Town

The Problem:

Chicago is experiencing a loss of middle-income residents. This is accompanied by the withdrawal of private capital from housing and residential areas in the city. These changes have a potential adverse effect both on private business activity and on public revenues.

The Issue:

Is concentration of capital investment in a South Loop New Town the best use of scarce public and private resources to maintain and revitalize a residential base in Chicago? *

The Current Situation:

Chicago, like many other older cities, has experienced an outflow of middle-income residents, especially whites, in the last fifteen years. The outflow represents the combined result of increasing suburbanization and the development of major population and employment centers in the "sunbelt" states. As Figure 11 shows, there is a considerable disparity between the distribution of household income in Chicago and in the rest of the metropolitan area. In comparison to the suburbs, just about twice the proportion of Chicago's households had incomes under $7,000, and only about half the percentage had incomes of $15,000 or more.

1969 Household Income	Chicago		Suburbs	
	Number of Units	Percent	Number of Units	Percent
Less than $4,000	261,700	23.0	136,600	11.1
$4,000 to $6,999	204,000	17.9	119,300	9.7
$7,000 to $9,999	211,600	18.6	190,700	15.5
$10,000 to $14,999	258,100	22.7	378,200	30.7
$15,000 and over	201,600	17.7	405,300	32.9

Figure 11. ANNUAL HOUSEHOLD INCOME, CHICAGO AND SUBURBS, 1969.
Source: City of Chicago, Department of Development and Planning, Housing and Households: Chicago - 1970.

* There was no consensus on how scarce are the resources that might be available.

We can get some idea of who is leaving Chicago by comparing the occupations of city residents in 1960 and 1970 to those of suburban residents. In 1960, 48.7 percent of Chicago's employed residents held blue-collar jobs: they were skilled or semi-skilled workers, private household or service workers, or laborers. According to Figure 12, the corresponding percentage for suburban areas in 1960 was 43.8 percent, or about five percent less. By 1970, the difference had widened to ten percent; the suburban employed labor force contained a significantly higher proportion of white collar workers.

	Chicago		Balance of SMSA	
	1960 *	1970	1960 *	1970
Total White Collar	41.7%	47.9	51.8	57.6
Professional or Technical	9.1	12.6	14.3	17.3
Managers, Administrators, Proprietors	6.0	5.2	11.7	10.5
Clerical	20.3	24.2	17.0	20.5
Sales	6.3	5.9	8.8	9.3
Total Blue Collar	48.7	52.1	43.8	42.4
Skilled Workers	12.9	12.8	16.3	14.9
Semi-skilled Workers	20.7	21.3	15.9	14.4
Private Household Workers	1.2	.8	1.5	.6
Service Workers	9.2	12.0	6.4	8.5
Laborers	4.7	5.2	3.7	3.9

* 1960 figures exclude 9.6% not reporting for Chicago and 4.5% not reporting in balance of SMSA.

Figure 12. OCCUPATION OF EMPLOYED RESIDENTS, CHICAGO AND SMSA BALANCE: 1960 - 70.
(Percent Distribution)
Source: U. S. Bureau of the Census

The second aspect of this population change -- the outmovement of white and not of black Chicagoans -- has an economic side as well. In 1970, Chicago's population was 32.7 percent black, as against an average of 3.6 percent for the suburban areas. Figure 13 represents information about income and earners in families of each race for the entire metropolitan area. 7/ It shows that 32 percent of white families had incomes under $10,000, but 63 percent of black families' incomes were under $10,000. More important, to achieve incomes of $7000 or above, black families had to contain at least two earners far more frequently than white families. In the $10,000 to $15,000 bracket, for example, 81.6 percent of black families -- but only 58.8 percent of whites -- had two or more incomes coming in. The significance of this fact is that less disposable income is available in black households and a different mix of jobs is needed to sustain them.

	Percent Distribution of All Families by Race		Percent of Families in Each Bracket With Two Or More Earners	
FAMILY INCOME	Black	White	Black	White
Under $5,000	27.4	9.5	10.7	14.5
5,000 - 6,999	14.8	6.6	27.2	28.8
7,000 - 9,999	21.0	15.9	45.2	39.2
10,000 - 14,999	22.9	32.7	81.6	58.8
15,000 - 24,999	12.2	26.9	93.6	76.2
Over 25,000	1.7	8.4	87.1	64.3
	100.0	100.0		

Figure 13. FAMILY INCOME AND RACE IN THE CHICAGO SMSA, 1969.
Source: U. S. Bureau of the Census

7/ The U. S. Census defines a family's race by the race of the head of household.

A diminished middle-income population has several consequences for Chicago's economic and fiscal viability. Sales and income tax revenues generated in the city are reduced when middle-income earners and consumers form a smaller part of the population. The market for retail goods and services may experience a fall-off in demand, making it more profitable for businesses to relocate. Such relocations remove part of the tax base from the city and they also remove the kind of jobs (especially in neighborhood establishments) which generate second incomes to pull black families into better economic circumstances.

A second critical area affected by the loss of middle-income population is the housing market. If demand for owner-occupied housing in Chicago neighborhoods decreases, property values may soften. Lack of overall growth in residential property values in the city is the major weakness in the tax base. Figure 14 compares the growth in home values (as reported to the Census by owners) in Chicago and the surrounding area. The figures are in "1970 dollars," meaning they have been adjusted for inflation and so reflect only true increases in value. As the last two columns reveal, in the '50s there was a positive growth in values in Chicago, its suburbs and the full urbanized area (including northwest Indiana), but the city's was the smallest. However, in the decade 1960-70, growth of property values in Chicago did not even keep pace with inflation, while the suburbs did show a small gain. As we have seen, slowed growth in the tax base is a major factor in fiscal scarcity.

Place	Median Home Value (1970 Dollars)			Percent Change	
	1950	1960	1970	1950-60	1960-70
CHICAGO	$19,700	$23,100	$21,200	+17.3	- 8.2
Suburbs	18,800	23,200	24,400	+23.4	+ 5.2
Chicago SCA	19,200	23,200	23,500	+20.8	+ 1.3

Figure 14. MEDIAN VALUE OF OWNER-OCCUPIED UNITS: CHICAGO, SUBURBS, AND SCA, 1950, 1960, 1970. Source: City of Chicago, Department of Development and Planning, Housing and Households....

The other side of a slower housing market is often the concern that develops on the part of financial institutions: that they are taking an increased risk when they lend for home mortgages in the city. If home financing becomes less available in certain areas because of this, the housing market will be slowed still further and the negative tax base effects will increase.

Figure 15 provides some insight on this issue of private housing disinvestment, in that it shows that financial institutions in the city -- and in particular, savings and loan associations (the home mortgage lending specialists) -- are favoring loans on suburban housing to a marked degree. Although there is a "chicken and egg" problem, or a self-fulfilling prophecy, on the question of risk and lending policies, several years of community activity and research on redlining have produced a good deal of evidence that private capital availability is limited for housing in many Chicago neighborhoods.

Institutions	Housing Loans in City and Suburbs	Percent of Assets in Housing Loans	Loans in Own Area	Other Chicago Loans	Suburban Loans
Group A*	$279.2	3.1%	-	$44.3 (15.9%)	$234.9 (84.1%)
Group B*	$123.3	9.1%	$37.5 (30.4%)	$31.8 (25.8%)	$54.0 (43.8%)
Group C*	$255.8	74.5%	$64.1 (25.0%)	$31.9 (12.5%)	$159.8 (62.5%)

* Group A: 5 downtown banks, assets $8,949 millions.

Group B: 7 neighborhood banks, assets $1,354.3 millions.

Group C: 4 savings and loans, assets $343.3 millions.

Figure 15. HOUSING LOAN PORTFOLIOS OF 16 CHICAGO AREA FINANCIAL INSTITUTIONS AS OF 3/1/76. ($Millions)
Source: Illinois disclosure reports.

Thus, through its effect on business activity and on the housing market, loss of middle-income residents can cut into Chicago's revenue-generating capacity and tighten the already tight fiscal constraints. Moreover, the loss of middle-income people is often self perpetuating: first, because homebuyers begin to feel they are more likely to get a better return on their investment in the suburbs where property values are rising, and second, because black home owners do not have the same chances for growth of equity since their housing market choices are still constrained overwhelmingly to city neighborhoods. More whites leave, and fewer black families have equivalent income and resources.

The Proposal:

The South Loop New Town, part of the Chicago 21 Central Area Communities Plan, is a proposal for the development of a major residential "new town" in the area south of the Loop. The development, with a first phase projected to reach 32,000 residents and 13,000 housing units, is intended to establish an attractive new middle-income community in the heart of the city. The plan is to be financed by $30 million in private equity capital and some $120 million in first phase mortgage borrowing, with the City of Chicago contributing an unknown volume of investment in land, infrastructure (sewers, water, gas and electric lines) and improvements (streets, lighting, parks). The Chicago 21 Corporation, a private limited-dividend entity, is to be the vehicle for public-private planning and financial cooperation on the project.

The primary rationale for the South Loop New Town seems to be that the continuing strength and vitality of the Loop would be reinforced by a substantial nearby middle-income family population. Current land use in the South Loop area consists of railroad yards and marginal commercial and industrial facilities; the Chicago 21 Corporation argues that "to permit the continued deterioration of a neighborhood so close to the area in which business is investing so heavily is suicidal." 8 / Instead, they propose that:

> A New Town in Town would provide an opportunity to replace what is now a severely under-utilized area with a fully-equipped, attractive quality city of 120,000 people within shuttling distance of the Loop: A city that will bring balance to the downtown residential population, new customers and employees to downtown business, and a more secure environment to all of the Loop.

The population needed to bring about these effects is not only middle income but is composed of family units rather than individuals. Family living coupled with home ownership would give the new town residential stability and community strength not achievable, it is said, through rental housing and more transient household types. But Chicago 21 Corporation acknowledges that in order to draw and hold middle-income families, the South Loop New Town must provide an "attractive alternative to suburban living," "an environment equivalent to or better than the typical middle-income suburb."

While the development of housing for the South Loop New Town would be financed by private equity capital and private construction and mortgage lending, the plan is dependent on major participation by the

8 / "South Loop New Town," Chicago 21 Corporation, 1974, p. 5.

City of Chicago. There are two aspects of the City's involvement: its interests as they are affected by the New Town, and the public actions which would be required to make the plan a reality. The Department of Development and Planning has taken a strong position in favor of total planning and development of the South Loop area rather than piecemeal private construction. 9 / Total planning, which is also Chicago 21's approach, is seen as a way to ensure balanced land use, rational relationships to the surrounding areas including the Loop, and an optimal impact on existing economic and institutional activity. Not the least of the City's concerns is to maximize the favorable tax base impact of such a project.

The City's leverage in protecting and furthering these interests is the legal framework of zoning and development controls under which the South Loop New Town could be built, but more importantly the investment of public resources in infrastructure and improvements which would be required. The existing street system in the South Loop area is obsolete, and other utilities necessary for residential use do not exist there. Second, the plan calls for Park District ownership and maintenance of the extensive open space in the area, although the costs of landscaping and park facilities would be privately financed. Third, the City's powers of land assembly could play a major part in controlling the cost of the project, and it is likely that negotiations in this area were an intended if unvoiced part of Chicago 21's planning.

The private actors to be involved in the South Loop New Town are primarily Chicago's large corporations and major financial institutions. The corporations are the most obvious source of the equity capital needed, while the scale of the project is such that the downtown banks and savings associations and some of the large national insurance companies are the main potential credit sources. The appeal of the South Loop New Town as a way to stabilize the Loop is certainly salient for both groups of financial actors.

Questions:

There are a number of difficult questions about the South Loop New Town plan, and its relationship to the Loop is one place to begin. Planning to stabilize the Loop by further concentration of private investment in the surrounding area is indicative of what has been called "fortress Loop:" 10/ an attitude which sees the commitment of business and financial institutions as limited to the central area. Yet it

9 / City of Chicago, Department of Development and Planning, South Loop New Town: Guidelines for Development, August 1975, p. 3.

10/ Richard F. Babcock, "Case of Corporate Myopia: Business Leadership Should Look Beyond Loop," Chicago Sun Times, Jan. 26, 1975.

is clear that the health of Chicago's downtown is intimately linked to the health of the entire city -- its neighborhoods as well as its skyscrapers and Magnificent Mile. If it is logical to protect existing investment by further investment, then that argument should hold for the city as a whole.

The concern about shopping and entertainment facilities is one example of the interrelationship between neighborhood health and the Loop problems that have been identified in discussions of the South Loop New Town. It is hoped that the middle-income families in the South Loop will provide these with both an economic and racial mix, since the Loop has become predominantly black at night. But an important reason for heavy black usage of Loop shopping and other facilities is the withdrawal of business and services from black or changing neighborhoods: commercial disinvestment. This is a pattern which also holds for financial institutions; the Loop banks and S & Ls are the main recipients of black savings in large part because there are so very few financial institutions on the south or west sides.

There is a second and related area of questions about the prospective residents of the South Loop New Town. The plan's objective is a mix of family incomes and races in the middle to upper income range. Since the housing will be predominantly owner units, it is not likely that families of moderate or lower income would be represented in large numbers, even though some subsidized units would probably be included as a condition of the City's participation. But will the South Loop New Town really attract middle-income families? In order to do so, the housing would have to be of relatively low density -- for example, townhouse units -- and of sufficient size and low enough price to be competitive with single family homes in other city neighborhoods and in suburban areas. However, unless the City does agree to contribute the cost of the publicly-built infrastructure and facilities and probably the land as well, the project costs will push the housing density up into highrise or midrise construction. And these are not likely to appeal to the middle-income family market. In short, is the market there for the South Loop New Town, and can the project actually target the market it is talking about?

And, where will the South Loop New Town residents come from? Even if the project is able to offer "suburban" amenities, it is likely that since many of the families it does attract will come from other neighborhoods in the city, the project will not add significantly to the city's middle-income population. Moreover, the possible negative consequences of draining people from other city communities are substantial; when New York's Co-op City project was built on the edge of the Bronx, the development so drained the rest of the Bronx of middle-

income people and business that instant deterioration was inevitable and racial change was greatly accelerated. It is not just that the South Loop New Town might be an alternative to focusing on Chicago's existing neighborhoods; it could also be a danger to their long-run viability. Building the South Loop New Town might benefit the core only to impair the health of the rest of the city.

Finally, the mix of South Loop New Town residents is a crucial factor in the net tax benefits that the City and other local jurisdictions would derive from the new town development. Although a predominantly family population may have advantages in fostering stability and community life, the educational costs associated with providing quality schooling would cut deeply into the revenues generated by the new tax base. Thus there is also a tradeoff between the population composition and the tax advantages of the project. Whether, on balance, the fiscal benefits of a South Loop New Town would outweigh the public costs is not clear.

A third area of some difficulty in the South Loop New Town project is the question of institutional initiative. There are two major groups of actors to be involved: the public sector (the City, the Park District, possibly state and federal agencies), and the private sources of capital and credit. Despite the scale of the total project and the risk-pooling achieved by bringing in various business and financial institutions, the New Town would be a high-risk venture: because of the sunken costs involved in starting from undeveloped land, because of uncertainties about the market, because of the major job involved in building an ongoing community as opposed to a certain amount of new housing. Each of the groups has held back awaiting the other's commitment, yet both commitments are needed if the work is actually to begin. Up to this point, the problem of initiative has existed because neither group seems willing to take the exposed position -- to be the final guarantor of risk.

It is questionable whether even the City's willingness to absorb the land costs and contribute infrastructure and improvements would necessarily be sufficient to make the project a viable investment. As we have seen, there are tough tradeoffs on cost, density and marketability. The scope of the whole development would require phasing, but the total investment package would have to be held together no matter what the early experience of marketing and residency showed. And finally, the lack of existing institutional anchors in the South Loop area--local institutions to play the public "coordinating" role that the University of Chicago or Michael Reese Hospital filled in urban renewal -- both increases the overall risk and puts an even heavier burden on the City's participation.

We have left for last what is probably the most significant question being asked about the South Loop New Town proposal: in a time of scarce resources, is this the best use to which the energy and financial capacity of the private actors and the City can be put in the area of residential stabilization?

There are two straightforward alternatives against which South Loop must be evaluated: a similar kind of public-private coordination but on the redevelopment of existing residential areas in the city, or a commitment by each of the institutions to put the same resources into existing housing and neighborhood facilities on a day-to-day basis.

While South Loop New Town is producing housing for 13,000 middle-income families in the next ten years, what will happen to the roughly 400,000 middle-income households who now live in Chicago? The slowing growth of residential property values and the aging of community facilities should be reason enough for concern that neighborhood decline will fuel the continued outflow of these people. And although there are areas of great distress in the city where the potential for successful large-scale redevelopment exists, there appears to be an equally strong need for a steady infusion of capital investment in housing, commercial facilities and public improvements in many neighborhoods where middle-income families now live.

We have seen that the relationship of the South Loop New Town to the viability of the Loop is not clearcut; the project may not be of sufficient scale to really influence Loop utilization, especially while the Loop continues to absorb customers from areas whose local shopping and recreation are disappearing. More broadly, a "fortress Loop" will not succeed in protecting the concentrated capital investment of Chicago's major retailers, corporations, real estate developers and financial institutions from the loss of business, of workers, of fellow tax-burden carriers -- if the middle income exodus continues. And there is a danger that one large project like the South Loop New Town will become the "good deed of the decade" for these institutions, relieving them of felt responsibility for the city as a whole.

On the other hand, South Loop New Town might be an appropriate project for the large national insurance companies and development firms, as well as Chicago's largest financial institutions. There is such a difference in scale between South Loop investment decisions and neighborhood ones, and between these major financial actors and local ones, that some division of labor would seem to be appropriate. It would also lessen any danger of competition for the same funds. Thus, apart from the building of a South Loop New Town, the daily lending decisions of local banks and savings and loan associations and the daily maintenance and improvement activities under the City's budget could be focused on strengthening neighborhood amenities, broadening commercial activity and stimulating local housing markets in Chicago.

The Economic Development Commission of the City of Chicago

The Problem:

The City of Chicago is experiencing a decline in commercial and industrial employment and investment, with adverse consequences for its labor force and tax base.

The Issue:

Can "protection against involuntary unemployment and economic stagnation best be provided by promoting, attracting, stimulating and revitalizing business, industry and commerce through the creation of an economic development authority"? (From the preamble to the ordinance creating an economic development commission for Chicago.)

The Current Situation:

Chicago is a city with an extraordinarily diversified economic base. While other large cities have grown around a single major industry -- such as Detroit and autos, Pittsburgh and steel -- Chicago has long had a mixture of heavy and light industry, trade, transportation and service employment. A diversified economic base makes a local economy somewhat less vulnerable to recessions (because all parts of the private sector are not equally hard hit) and better able to sustain growth over the long term.

But, despite the diversity of its base, the City of Chicago has experienced a substantial loss of employment since 1967. As Figure 16 shows, the loss is taking place in three of the four major sectors (wholesale, retail and manufacturing), with the service sector alone showing employment expansion.

	1967		1972		Percent Change	
	City	Suburbs	City	Suburbs	City	Suburbs
Retail	217.4	172.3	193.0	236.7	-11.2	+37.4
Wholesale	105.5	92.4	101.2	93.0	- 4.1	+ .6
Manufact.	546.9	436.2	430.1	479.2	-21.4	+ 9.9
Service	138.1	51.5	157.3	87.8	+13.9	+70.5
TOTALS	1,007.9	752.4	881.6	896.7	-12.5	+19.2

Figure 16. CHANGE IN EMPLOYMENT, BY SECTOR, IN THE CHICAGO SMSA: 1967 - 1972. (Thousands)

Source: Chicago Association of Commerce & Industry

Although the recession of 1971 was a significant factor in the magnitude of the decline, the city's losses were much sharper than those measured for the suburban areas of the SMSA. Indeed, the 1972 suburban figures still show some net growth for the five year span.

During that period of time, the U.S. economy went through a combination of recession and tight money; even though business was sluggish, credit was scarce and interest rates were high. In addition, double-digit inflation was followed by the deep recession of 1974-75. Under such severe cyclical conditions, the Chicago economy would of course show employment losses and related changes. It is quite possible that many of the downward trends noted here are related to cyclical factors as well as to long-term changes.

Chicago's changes in manufacturing employment thus show the effect of a long period of recession and tight money, and also reflect two trends in the national economy: a slowing of overall growth of manufacturing as compared to other sectors and a shift of manufacturing enterprises from city to suburban areas. As Figure 17 makes clear, the trend line of manufacturing employment in suburban Cook County and in the other metropolitan counties (DuPage, Kane, Lake, McHenry and Will) has generally moved upward with only a small downturn in 1971. Chicago, by comparison, shows a decrease from 1967 on, with a sharp drop in 1971.

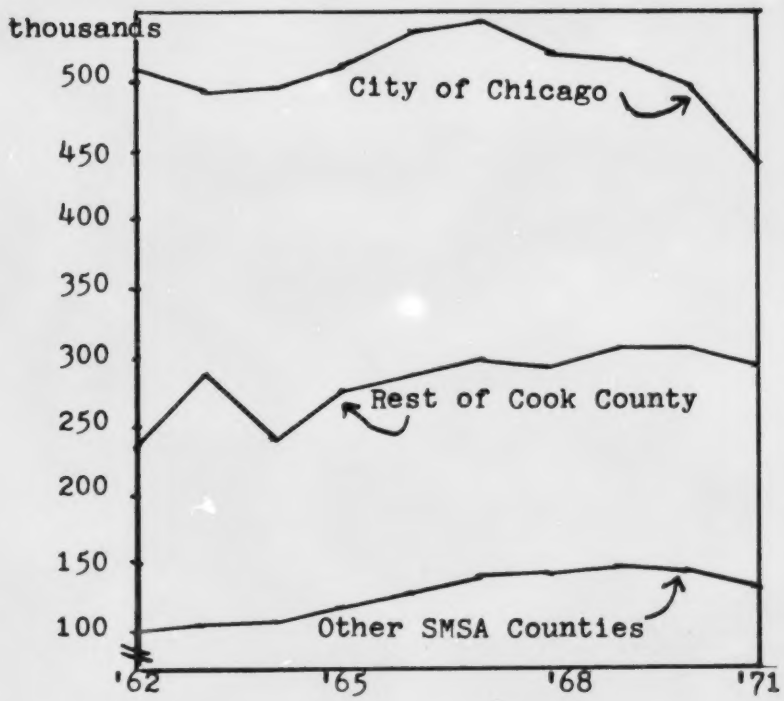

Figure 17.

MANUFACTURING EMPLOYMENT IN THE CHICAGO SMSA, 1962 -- 1971.

Source: The Mayor's Council of Manpower and Economic Advisors, Chicago's Economy.

Chicago has declined in manufacturing employment both in absolute numbers and in its share of the metropolitan total. This shift represents a particular hardship to Chicago's black and Spanish-speaking workers for whom manufacturing jobs have become increasingly important. (In fact, fully 56 percent of Spanish-speaking employees held manufacturing jobs in 1970.) It means more difficulty in finding jobs as plants continue to disperse in suburban areas; and it means more reverse commutation since few blacks and Latinos live in the suburbs. According to the Chicago Reporter, the number of blacks and Latinos commuting to work from city to suburbs rose more than fourfold between 1960 and 1970, while suburban employment of white Chicagoans did not quite double. 11/

Some of the contraction in manufacturing jobs is due not only to the recession but to a technological shift toward capital- and land-intensive rather than labor-intensive production processes. But retail, wholesale and manufacturing sales in Chicago have also shown some adverse trends which indicate that problems in the city's economic base go deeper. In Figure 18, the city-suburban comparison reveals that suburban growth is greater in every category; more important, it shows that sales by Chicago firms have not kept up with the rate of inflation except in the service sector, while all sectors in the rest of the metropolitan area show real growth in sales volume.

	1967		1972		% Change	
Sales	City	Suburbs	City	Suburbs	City	Suburbs
Retail	6424	6041	7494	9737	+16.7 *(-7.9)	+61.2 (+27.3)
Wholesale	17534	15106	21153	21253	+20.6 (- 4.7)	+40.7 (+11.1)
Manufact.	14906	12509	16360	18655	+ 9.8 (-13.3)	+33.0 (+17.8)
Service	2771	852	4314	1528	+55.7 (+23.0)	+79.3 (+41.7)
TOTAL	41635	34508	49321	51173	+18.5 (- 6.4)	+48.3 (+17.2)

* Figures in parentheses ( ) are the percent change in "Real dollars" (adjusted for inflation). Upper figures are % change in current dollars.

Figure 18. GROWTH OF SALES, BY SECTOR IN THE CHICAGO SMSA: 1967-1972 ($Millions)

Source: Chicago Association of Commerce & Industry

11/ "Minority Commuting: Numbers, Costs Zoom," The Chicago Reporter, 2:11 (December, 1973), p. 1. But there has been some dimunition of this trend since 1970.

The key longterm factor underlying these weaknesses in employment and sales is the shift of commercial and industrial investment away from city locations. That is, much of the investment in the expansion of existing plants or the construction of new ones is taking place in suburban areas. It takes the form of relocations out of Chicago, but also of a pattern in which Chicago firms remain at their sites but expand their operations elsewhere instead of in Chicago. In Figure 19, the share of industrial investment being captured by the outlying metropolitan counties has generally been increasing since 1962; that of both the city and the rest of Cook County has been falling but showed some resurgence in the 1972-74 period. Although suburban development is here to stay, the resurgence of Chicago and Cook County during a difficult economic period may be a hopeful sign for more balanced investment patterns in the future.

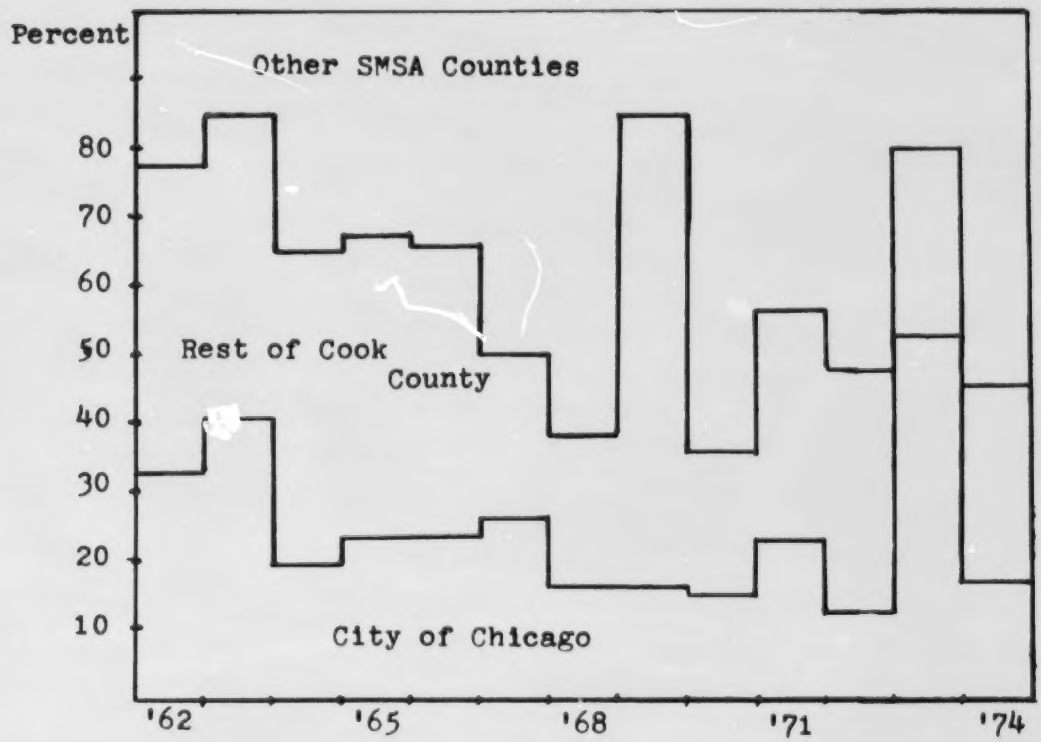

Figure 19. SHARES OF INDUSTRIAL INVESTMENT: CHICAGO, COOK COUNTY AND REST OF SMSA, 1962 - 1974.
(New construction and expansion projects only.)
Source: The Mayor's Council of Manpower and Economic Advisors, Chicago's Economy.

The fiscal impact of these changes in employment, sales and investment is felt in the various taxes and fees levied on business activity (for example, the shortfall in expected revenues from the employee head tax because of reduced employment), but it is felt in the property tax base as well. In Cook County, commercial and industrial property is assessed at a greater percentage of market value than residential property, so commercial and industrial land values have a greater-than-proportional influence on the total assessed valuation. As Figure 20 shows, even the area of fastest growth in industrial land values in Chicago (the Far South) has been substantially outpaced by most suburban areas.

AREA	1961	1972	PERCENT CHANGE 1961 - 1972
Chicago (Growth)[1]	$1.00	$1.44	+ 44.0
Northwest	$1.67	$2.20	+ 31.7
Southwest	$0.96	$1.18	+ 22.9
Far South	$0.45	$0.73	+ 62.2
Chicago (Stability)[2]	$1.78	$2.23	+ 25.3
North	$1.56	$1.96	+ 25.6
Outer Business Ring	$2.00	$2.49	+ 24.5
Chicago (Decline)[3]	$1.03	$1.13	+ 9.7
Suburban (Fastest Growth)[4]	$0.91	$1.82	+100.0
Northwest Suburban	$0.60	$1.37	+128.3
North Suburban	$1.18	$2.38	+101.7
West Suburban	$0.94	$1.70	+ 80.8
Suburban (Stable)[5]	$0.54	$0.83	+ 53.7
Suburban (Moderate Growth)[6]	$0.20	$0.38	+ 90.0

Figure 20. AN INDICATOR OF GROWTH IN INDUSTRIAL PROPERTY VALUES: COST PER SQUARE FOOT OF M-ZONED LAND IN COOK COUNTY, 1961-72.
(Footnotes are on the following page.)
Source: Olcott's Blue Book of Land Values in Chicago, 1961, 1972, as quoted in Chicago's Economy.

Proponents of an Economic Development Commission for Chicago have argued that increased diversity and prosperity in the city's economy are the key to improvements in the quality of neighborhood and individual life. Yet business people cite neighborhood decay, crime and vandalism as major factors in their withdrawal from Chicago. Given this interrelationship, loss of commerce and industry means not only fewer jobs, less disposable income and diminished tax base (direct effects), but also further weakened communities and compounded social problems.

The relationship of neighborhood viability to commercial and industrial activity is highlighted by the location of much of Chicago's job base. In the areas of finance, insurance and real estate employment, 40 percent of the city's jobs are located outside the Loop. For employment in transportation and warehousing, communications and utilities, state and federal government offices and services, about 70 percent of the jobs are found outside the Loop. These examples show that the mutual influence of neighborhood condition and commercial and industrial uses affects a very substantial portion of Chicago's economy.

Footnotes to Figure 20:

1. The Growth area includes the section of Chicago west of Pulaski Road and north of North Avenue, south of Roosevelt Road and west of Western Avenue, and all land south of 79th Street. Manufacturing employment increased 16 percent in this area between 1962-69.

2. The area of Stability includes the sections of Chicago east of Pulaski Road and north of North Avenue, west of Cicero Avenue between North Avenue and Roosevelt Road, and the Outer Business Ring surrounding the Central Business District. Manufacturing employment increased less than 3 percent in this area between 1962-69.

3. The area of Decline includes the section of Chicago east of Western Avenue between North Avenue and 74th Street south excluding the Outer Business Ring. Manufacturing employment in this area declined 12 percent between 1962 and 1969.

4. Suburban Cook County north of Roosevelt Road. (West and North.)

5. The area of Suburban Cook County south of Roosevelt Road and north of 138th Street. (Southwest Suburban.)

6. Suburban Cook County south of 138th Street. (South Suburban.)

Yet if we focus on the growth of real estate assessments in areas of the city with the most substantial commercial and industrial land use, only the Loop shows a major increase. That the whole city real estate tax base is static -- with only downtown growth to brighten the picture -- is clear from Figure 21; outside downtown, total assessed valuation grew only 1.1 percent. For the whole city the real estate base expanded 2.4 percent while suburban areas of Cook County topped 6 percent.

Amount & Valuation	1974	1975	% Change
Cook County	13,275,735.8	13,836,900.6	+ 4.23
Suburban	6,758,992.6	7,165,404.1	+ 6.01
Chicago	6,516,743.2	6,671,496.5	+ 2.38
Downtown*	800,000.0	892,000.0	+11.50
Rest of Chicago	5,716,743.2	5,779,496.5	+ 1.10
Share of Valuation			
Cook County	100.0%	100.0%	
Suburban	50.9	51.8	+ .9
Chicago	49.1	48.2	- .9
Chicago	100.0	100.0	
Downtown*	12.3	13.4	+ 1.1
Rest of Chicago	87.7	86.6	- 1.1

*Estimated by Assessor's Office.

Figure 21. GROWTH IN THE ASSESSED VALUATION OF REAL ESTATE, CHICAGO & COOK COUNTY, 1974 - 1975.
($Thousands)
Source: Cook County Assessor's Office, Chicago Tribune (March 26, 1976)

What the city-suburban difference indicates is that even the Loop real estate boom has not made up for problems with both residential and commercial/industrial property values in the rest of Chicago. It is to address some of these problems that an Economic Development Commission for Chicago was established.

The Commission

The Economic Development Commission of the City of Chicago, as established in an ordinance passed late in 1975, would approach these problems by means of the acquisition and development of vacant and marginal industrial land. The Commission, in tandem with the Commercial District Development Commission (created in May 1975) could also designate blighted commercial areas and plan and carry out their redevelopment.

The EDC is part of a broader initiative on the part of the City, under the aegis of the Mayor's Council of Manpower and Economic Advisors and the Mayor's Committee on Economic and Cultural Development, to stabilize the city's economic base. The central focus of Chicago's economic development policies is employment -- jobs for the city's residents -- rather than attraction of industry per se. The economic development program has two main operational tenets: 1) that Chicago's best prospect is in keeping firms in the city and capturing their expansion -- industrial conservation -- rather than attracting newcomers; and 2) that maintaining city services for commercial and industrial areas and working on service problems in the neighborhood settings is a key to economic stabilization. On this basis economic development activities in Chicago from 1961 to 1968 consisted largely of following up information about planned moves from the city with attempts to facilitate expansion in place or to deal with the problems behind the moving decision, and the development of "one stop service" so that both local area problems and specific company problems could be identified and tackled.

By 1968, the economic development effort had expanded into targeting areas of the city with underused commercial or industrial potential. In addition to capital improvement planning to spur development in these areas, the Council has worked with community organizations on neighborhood relations with industry and has encouraged the formation of local industrial councils to work with the neighborhoods on problems like security. 12/

12/ Further discussion of economic development policy and activities may be found in Chicago's Economy (1974) and A Base for Better Times (1975), both publications of the Mayor's Council of Manpower and Economic Advisors.

The Economic Development Commission, the newest element in the economic development campaign of the City, is project-oriented both in its powers and in its financing mechanism. The powers to assemble land, to plan its development or redevelopment, and to carry out or be a partner in the implementation of such projects, are meant to give the City better leverage in turning improved city services and concentrated capital works into jobs and revenues. By maintaining ownership or control of site and development, the EDC will be able to optimize the employment mix in terms of the particular location and in reference to available employment opportunities elsewhere in the city.

Because the EDC has the power to carry out development itself or by joint venture, the entity which absorbs the land costs of a project will be the same entity which sells or leases the completed facility. Therefore, it should be able to recapture profits and turn them to additional development uses. Further, the EDC can choose to take reduced profits or lower rents on specific projects in the interest of attracting firms with the desired job mix, training programs or other benefits -- thus trading-off short-term for long-term economic advantage. Finally, EDC ownership with long-term leasing has the potential advantage of stabilizing tenants; in accounting terms, a firm is less easily able to write off the liability of a long-term lease than to depreciate a plant it owns. This means that long-term leasing offers more leverage in retaining industry than sale of redeveloped facilities.

Questions:

The EDC's financing mechanism is to be the industrial revenue bond. Bonds would be issued to raise funds for specific projects and would be repaid entirely from the proceeds of the sale or leasing of the finished facility. Thus, the EDC's projects would involve no extension of municipal taxing or borrowing powers. Although use of revenue bonding is favored because of this, it will certainly be more difficult to raise funds for redevelopment projects on their own merits, in a context of declining economic activity and static land values, than if the City's credit stood directly behind the bonds.

Creating jobs is one of the key objectives of the Economic Development Commission, although the process -- via industrial development projects -- is somewhat long- term. A first question to be raised about the EDC concerns its emphasis on attracting manufacturing jobs in particular, and the possible risks and difficulties growing from that focus.

The advantages to attracting manufacturing capacity, in contrast to service or sales firms, make good sense in terms of the overall objectives of Chicago's economic development program. Chicago's labor force is heavily blue-collar, and skilled workers would be reasonably

available. An expanded number of unskilled jobs would offer the poor, and especially minority teenagers, a point of entry into the labor force: one which is sorely limited now. And it is said that manufacturing also produces a greater spin-off of additional jobs than other kinds of enterprise, so that growth in manufacturing might provide a bigger overall boost for the city's economy. Lastly, manufacturing plants are substantial capital investments and are less mobile than other kinds of firms which might lease space in EDC projects.

But the emphasis on manufacturing may encounter some obstacles. The most important of these is the diminishing role of manufacturing in the whole economy; Chicago would be putting considerable resources into competing for a shrinking pie. It is clear that, while manufacturing will not disappear from the economy, the main locus of employment growth will be in other sectors. There is also a shift of industrial investment away from the north and east toward the "sunbelt" states. And manufacturing firms are more susceptible than other types of industry to downturns in the economy. Since those who purchase industrial revenue bonds are aware of these conditions, it is possible that the emphasis on attracting manufacturers could make it more difficult for the EDC to sell its bonds to finance its redevelopment efforts. The commendable emphasis on job creation may need to be tempered by efforts to strengthen prospective project revenues.

A second area of note is the project orientation of the EDC. The EDC's geographical focus will be confined by its nature to rather specific locations. This localized project approach is best suited for coordination with neighborhood redevelopment efforts; otherwise, the Commission's projects would be susceptible to the negative spillovers of lack of capital investment in the surrounding areas, just as concentrated infusions of strictly private capital would be. A project with both sufficient scale and necessary attention to nearby people and institutions has the potential for <u>reattracting private investment</u> into some of the city's lower income areas where both blighted and unused industrial land abound.

A third and more general point which must be raised about the Economic Development Commission is its relationship to the slowed growth of the city's real estate property tax base. Because the problems in the tax base are so interrelated, with housing values affected by commercial and industrial blight and industrial land values suffering from neighborhood decay, redevelopment of specific parcels may be a less effective use of scarce resources than a policy aiming at a generalized tax base boost.

One alternative approach could be called "<u>leveraging the downtown tax base into the rest of Chicago.</u>" The leveraging idea is based on recognition that the growth of downtown assessed valuations is now all but carrying the rest of the city. Our discussion showed how great the dis-

parity in increased valuation was between downtown and the rest of the city: fully 59.5 percent of the 1974-75 increase for all real estate in the city was attributable to downtown.

Managers and developers of Loop properties have expressed concern that this imbalance will lead to escalating costs of Loop rental space. If, because the tax base is expanding so slowly, tax rates must continue to increase, the effect on downtown rents could be considerable. Taxes already account for 16 to 17 percent of the cost per square foot, which is about par with current suburban rates; if taxes continue to rise as a balance against static values in Chicago neighborhoods, the Loop will be in danger of losing its competitive position.

Since the Loop is effectively subsidizing the rest of the tax base already, why not make the transfer explicit and remedial? One way would be to earmark a portion of the additional revenues generated by Loop properties for physical improvements throughout the city. In effect, the City would begin a neighborhood capital investment program with sufficient weight to attract and hold private capital for commercial and industrial facilities, and for housing as well. Funds would still be limited, but this inflow of additional public resources coupled with judicious pressure on sources of private credit, could begin to address both the problems in the tax base and the kinds of spillovers from neighborhood deterioration which have accelerated the outmovement of firms, jobs and people.

A second proposal based on similar reasoning would have the local government bodies freeze the aggregate levy of property taxes from a specific area of the city for a specific span of time (say five years). This would amount to a guarantee that no individual property would have to pay more and that any construction in the area would leave everyone paying less (the same total tax would be divided into more pieces). Faced with a known maximum tax and a way to diminish it, owners would be able to upgrade their properties without penalty of assessment increase. More important, whole areas would have a powerful incentive to organize themselves to set up local structures for bringing as much new physical investment into their communities as possible -- an advantage which the City could support by funneling building permits and redevelopment projects into the designated area. And new facilities for industrial use could be built with firm knowledge of future tax burdens.

While each of these proposals is far from fully worked out, their direction is clear: to put the scarce resources the City does have to use in stemming delinquency, decay and disinvestment throughout the property tax base, rather than in specific redevelopment efforts. Such an approach would deal with the interrelationship of industrial decline and

neighborhood decline in a more general way than the project-oriented Economic Development Commission. The EDC would complement that effort by its focus on neighborhood development. It should be obvious, however, that no one policy or program -- neither tax freeze nor EDC nor South Loop New Town -- can turn Chicago's fiscal picture around, nor can either the public or the private sector or neighborhood groups do it unless they coordinate their efforts.

Chicago's Allocation of Community Development Block Grant Funds

The Problem:

Chicago's city government, like that of other central cities, is faced with burgeoning service demands and costs which have outpaced the City's fiscal resources. At the same time, the incipient decline of Chicago's physical facilities -- housing, schools, streets, transit lines -- requires public initiatives and increased spending for capital improvement and redevelopment.

The Issue:

How would Chicago's Community Development block grant funding be best divided between meeting service needs ("software") and investing in physical improvements ("hardware")?

The Current Situation:

The City of Chicago, like most other central cities and like more and more local governments generally, is increasingly a provider of public services to its residents. Over the last hundred years, the functions of city government have expanded steadily, from the basic or core services -- police, fire protection, sanitation, parks, primary and secondary education -- into health care, transit, higher education, housing, social services and urban development. While most cities are involved in only some of these areas, Chicago -- if we take together the set of overlapping jurisdictions which draw upon the city tax base -- does them all.

The provision of these services is an increasingly costly enterprise. State and local government expenditures have risen faster than other cost areas in the economy, and this is primarily because they are so labor-intensive. In contrast to manufacturing, for example, it is difficult for government to substitute machinery for workers as the cost of workers overtakes and passes the cost of equipment. That the cost of labor is the largest component of Chicago's operating budget can be seen from Figure 22; in 1970 personal services plus pensions accounted for 55 percent of the City's budget, while the projection for 1976 has these elements up to 63.2 percent of the total.

Much of the substantial cost increase which has overtaken local governments is due to the rapid inflation in the U.S. economy since 1971. It is not that Chicago is expanding its municipal workforce (indeed, it contracted slightly for all services except education between 1972 and 1974), but that the City has raised wages and fringe benefits to keep up

with the inflation of living costs. The average monthly wage of Chicago municipal employees rose from $ 970 to $ 11[illegible] between October 1972 and 1974; therefore, despite a two percent decline in the number of workers, the increase in wage costs to the City exceeded 12%.

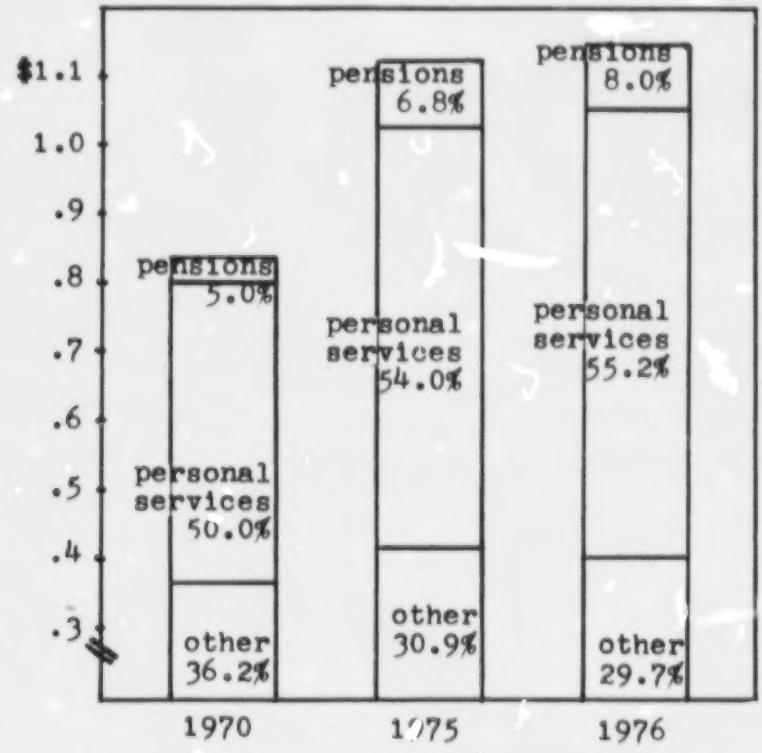

Figure 22. CITY OF CHICAGO BUDGET: SELECTED CATEGORIES OF OPERATING EXPENDITURES ($Billions). Source: Civic Federation

As local government becomes more expensive, taxpayers increasingly ask what they are receiving for their money. The question of efficiency in governmental operation is one about which volumes have been written. For one thing, it is terribly difficult to measure productivity since in most city services the product is not physical. Measuring government output by the number of persons served ignores the all important quality differences. And secondly, every city defines its services slightly differently (for example, whose garbage the sanitation department picks up), so that making comparisons between cities must be done very carefully.

With this caveat in mind, it is still important to ask whether some of Chicago's service cost burden might be lightened by improving the efficiency of operations or returning more services to a user-fee basis. We

do have some comparative measures. A study by the Better Government Association and Chicago Tribune in 1974 showed that Chicago's Water Collection Division read fewer meters per worker daily than Detroit, Milwaukee, St. Louis or Indianapolis, that the Bureau of Sewers spent more for maintenance per mile than New York, Kansas City, Milwaukee, Detroit or Los Angeles, and that the Sanitation Department here had greater costs per ton of garbage and mile of street sweeping than a number of other large cities. Figure 23 gives details of these inter-city differences.

Waste found in Water Collection Division
1974 Budget: $3.9 million
Waste found: $1.3
Number of meters read daily by one reader*
150
100
50
0
Chicago
Detroit
Milwaukee
St. Louis
Indianapolis
*Based on the annual performance divided by the number of paid work days
©1974 Chicago Tribune
Waste found in Bureau of Sewers
1974 Budget: $13.9 million
Waste: 9.6
Cost of maintaining each mile of sewer
©1974 Chicago Tribune
Waste found in Sanitation department
Total 1974 budget $86.8 million
Total waste: $19.1
Breakdown of waste
Garbage pickup $14 million
Street sweeping 3.6
Animal removal 1
Cleaner Chicago Committee 2
Garbage collection:
The cost per ton, based on the tonnage picked up in a year divided by the collection budget.
Chicago $34.48 4-man crew
Milwaukee 20.84 3-man crew
Kansas City 23.70 3-man crew
Los Angeles 14.40 2-man crew
Dallas 11.00 2-man crew
The amount picked up per manhour of crews based on number of tons divided by the number of manhours paid per year
Chicago 25 tons 4-man crew
Los Angeles 62 tons 2-man crew
Kansas City 58 tons 3-man crew
Dallas 51 tons 2-man crew
Street sweeping:
The cost of street sweeping per mile, based on the annual budget for street sweeping divided by the number of miles of paved streets.
Chicago $1,823
Los Angeles 1,074
Cincinnati 1,066
Detroit 966
Kansas City 880
Milwaukee 671
©1974 Chicago Tribune

Figure 23. INTER-CITY DIFFERENCES IN MUNICIPAL COSTS. Source: Chicago Tribune, Nov. 24-29, 1974 and Better Government Association, 1974 Annual Report.

Surprisingly enough, the cost of basic municipal services in Chicago seems to exceed even that of New York, which now has such a reputation for fiscal mismanagement. A Chicago Tribune analysis of the two cities' 1974 budgets shows that Chicagoans pay $ 354. 75 per capita for the basic city functions -- police and fire, streets, parks, sanitation and libraries -- or 24 percent more than the New York City figure of $ 286. 94 13/ There

13/ William Gaines, "Two City Budgets -- sleight of hand here and a house of cards there," Chicago Tribune, May 2, 1976, Sec. 1, p. 10.

were greater expenditures per capita in each of the areas of budget preparation, personnel administration, water, sewers, sanitation and environmental controls in Chicago. Of course Chicago may very well provide better quality services for the extra cost than New York City. And a sobering fact about both cities' per capita expenditures is that the nationwide average for cities over one million population -- for the same basic services and also measured on a per capita basis -- was $117 in 1973, or less than one third of the Chicago figure.

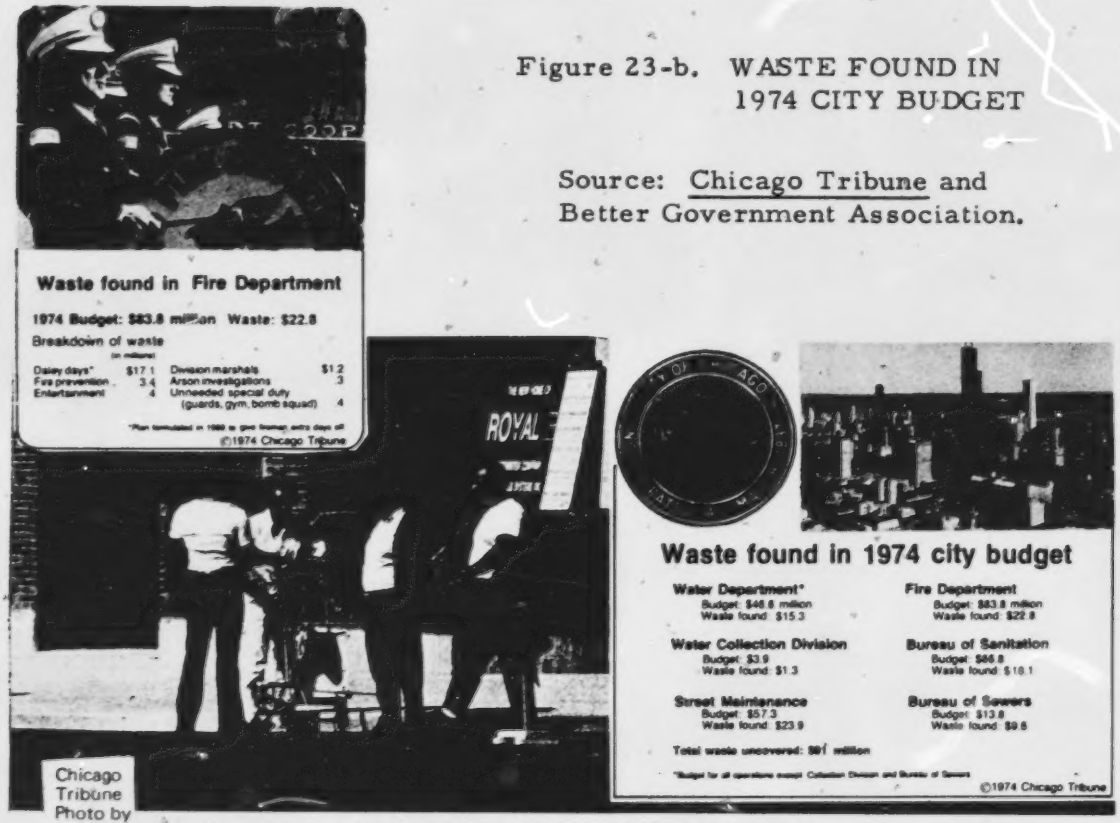

Figure 23-b. WASTE FOUND IN 1974 CITY BUDGET

Source: Chicago Tribune and Better Government Association.

Chicago Tribune Photo by George Quinn

Painting crosswalk stripes in Chicago takes a four-man crew and supervisor who will even wait for paint to dry.

Also contributing to the picture is the fact that Chicago is a strong union town; municipal unions seldom come out second-best at the bargaining table, as indicated by the fact that our policemen, firemen, teachers and bus drivers are the highest paid in the nation; among the top five cities in municipal pay (Chicago, New York, Los Angeles, Philadelphia and Detroit), our clerks and sanitation workers rank second. (August, 1975 figures.) Prior to its near-default, New York City was under heavy criticism because of its alleged fiscal irresponsibility in many areas including municipal employee pay, yet 1973 figures from the Bureau of Labor Statistics show that even at that time, Chicago's average amployee pay for common municipal functions ($11,104) outranked New York's ($10,946).

The cost burden of providing these services is rising at an accelerating rate, but paying for the services depends on a tax base which is showing weaknesses. The slowed growth of residential and commercial property values signals the need for focusing on stabilization and rehabilitation of existing physical facilities. For streets, sewers and transit lines, schools and other public structures, this is clearly the responsibility of the public sector -- through ongoing maintenance under the operating budgets and through investment in improvements under the City's capital budget. But Chicago's housing and community facilities were also showing the need for physical revitalization, and the City has an important role to play in these areas as well.

A first factor accounting for the need for renewed investment in housing and community facilities is simply age. As figure 24 shows, well over twice the proportion of Chicago's housing stock was built before 1940 in comparison with the surrounding suburban areas, and just ten percent of the city's housing units -- but 31 percent of suburban units -- were built between 1960 and 1970. Chicago has an extraordinarily sound housing stock for its age, but its continued desirability depends on steady upkeep and some modernization and rehabilitation.

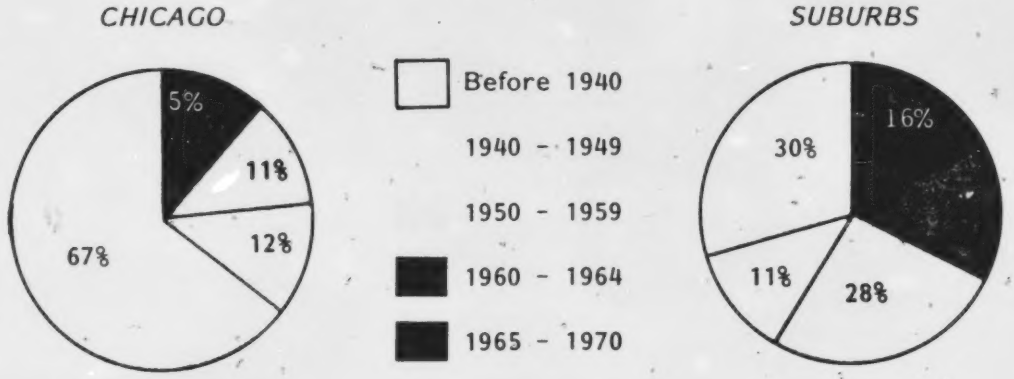

Figure 24. HOUSING UNITS BY YEAR STRUCTURE BUILT, CHICAGO AND SUBURBS, TO 1970.
Source: City of Chicago, Department of Development and Planning, Housing and Households.

A second, and very troubling, aspect of the City's housing picture is the rate at which we are losing dwelling units. Of course, some demolition goes on all the time, to make way for new housing or new land uses. But since 1965, the spread of abandonment leading to demolition has been so substantial that it is estimated we are losing 53 apartments or homes a day in 1976. The other side of the picture is that tight money and a

depression in the building trades have meant very little new housing is being built, particularly within the city limits. According to Figure 25, in the decade between 1960 and 1970, Chicago lost 159,000 units but had 139,700 added, so that the net loss was just 1.6 percent. Between 1970 and 1974, however, a loss of 85,000 units and construction of only 32,000 (8000 new units per year compared to 14,000 before) meant a net loss of another 4.5 percent. The tragedy is that a great deal of this lost housing would probably be salvageable and marketable if the money were available and if the deterioration of community settings could be stopped.

			Percent Change From 1960
1960 Total Housing Units		1,216,600	
1960-1970 Units Added		+ 139,700	
Units Lost		- 159,000	
1970 Total Housing Units		1,197,300	-1.6%
1970-1974 Units Added		+ 32,000	
Units Lost		- 85,000	
1974 Total Housing Units		1,144,300	-5.9%
Annual Rate of Net Loss	1960-1970	1,930 Units	
	1970-1974	5,300 "	
Annual Rate of Gross Loss	1960-1970	15,900 "	
	1970-1974	17,000 "	
(Estimated)	1975	19,000 "	

Figure 25. LOSSES IN CHICAGO'S HOUSING STOCK: 1960 - 1975.
Source: Department of Development and Planning, City of Chicago, Housing and Households.

In the background section on the South Loop New Town proposal, we mentioned some of the problems relating to the availability of private capital for mortgage credit in Chicago. Lack of credit, or adverse mortgage terms, compared to suburban housing, are no help to a housing market which is also feeling the effects of middle-income population loss. A not uncommon rule of thumb for lenders is that the term of the mortgage plus the age of the house should not exceed 60. This conventional "wisdom" is related to the "newer is better" growth-oriented stance which private actors and public policy have shared without much thought until recently. The prospect of fiscal scarcity has raised conservation -- reinvestment in existing facilities -- as a far less costly alternative in both human and dollar terms. With so many of Chicago's residential neighborhoods substantially built up during the construction boom of the 1920s, are we ready to write off this housing as being without further economic value or social usefulness in the next five to ten years? We certainly cannot expect new con-

struction to fill the gap, and so we must marshall the public and private resources and determination necessary to conserve our existing stock.

The problems of the rental housing stock deserve special mention here because they are part of a self-reinforcing cycle of poverty and dependency which contributes to the perpetuation of social inequality and fiscal scarcity. The economics of rental housing has become extraordinarily difficult in the last five years, with the energy crisis, inflation, increased taxation and interest rates all converging on fifty-year-old buildings which also need some substantial maintenance and improvement expenditures. Yet the tenants of these buildings are by and large the lower and moderate income people whose economic situation cannot absorb rent increases due to rising costs.

At the same time, tenants have no long-term stake in either the physical condition or the economic viability of the housing they occupy and so can make the situation worse. Then, as housing conditions slide still further, the economic base of the local community is eroded and those who earned or owned in the area are now added to the population of Chicagoans who are not sustained by the city's economy. Neighborhoods have traditionally been very important vehicles for individual capital accumulation and social mobility. For families, putting savings into a home which appreciates in value has been the single most significant way to increase resources. The local commerce supported by neighborhood residents benefits from rising family income and assets; at the same time, local businesses offer the kind of job opportunities two-earner families need to better their living circumstances. Short-circuiting the cycle of rental housing and community decay requires developing structures through which tenants can gain the same kind of equity and stake in neighborhood quality, thereby benefiting themselves and the city as a whole.

A correlative problem is that the skills and ability to, for example, put together a finance package or to otherwise maintain or upgrade housing is significantly lacking in many neighborhoods. Just because money becomes available does not mean that there are those with adequate sophistication and skills to take advantage of the opportunity.

Both in the area of public service provision and in the area of housing and community stabilization and improvement, there are burgeoning needs and costs which must be met out of the same limited fiscal resources. Chicago's operating and capital budgets represent an ongoing series of choices about social services and physical improvements, and a look at one set of the City's choices can be most instructive.

The Community Development Funding:

In the Housing and Community Development Act of 1974, Congress sought to consolidate and coordinate previous federal programs concerned with housing, open space and community facilities. These programs included a mix of service functions related to the physical well-being of towns and cities. Toward the objective of "developing viable urban communities by providing decent housing and a suitable living environment..."the Act offered local governments grants of federal money to be used in the elimination of blight, the conservation and rehabilitation of housing, and the expansion and improvement of community services. The money was to be divided among these objectives at the discretion of the local government.

The Community Development (CD) block grant program represents a continuation of the shift of federal funding patterns from grants for specific purposes to multi-purpose lump-sum funding. Thus, the CD money is not new money: it replaces prior grants for urban renewal, for Model Cities, for building code enforcement, for construction of sewer and water lines, for demolition, for protection of open space and for historical preservation. As noted before, large center cities previously received some extra compensation for their inner city problems through specially earmarked funding, but now the grants-in-aid are becoming more general and less equalizing.

Most of the local government activities eligible for community development spending are related to the maintenance, improvement, or expansion of physical facilities. However, certain activities from old superceded programs were carried over into the eligible list: relocation, ongoing Model Cities work, matching of other federal aid, and local service provision. Thus, Chicago has the option of using its community development funding for a combination of service expenditures and capital improvements, and the allocation decisions facing the City in these two areas of expanding needs are highlighted in the way the first $43 million CD block grant has been used.

Chicago received its first year community development funding in two parts: $7.1 million earmarked for the transition of Model Cities programs into the City's own agencies, and $36.1 million for regular community development spending. Of the original $43.2 million budget, which Chicago had to submit in its application to the Department of Housing and Urban Development (HUD), some $22.5 million was allocated to the category of "hardware": activities concerned with the planning or implementation of construction, improvement and rehabilitation of physical facilities. Another $18.9 million was to be spent for "software": social services and training programs. We have classified the community development budget into hardware and software in order to highlight the choices between services and physical improvements in the use of CD money; the full breakdown is provided in Figure 26.

	"Hardware"	"Software"	Unknown	% Hardware
Original CD Budget	20,316	13,880	1,862	56.3%
Original MC Transition	2,171	4,972	-0-	30.4
Total CD Budget	22,487	18,852	1,862	52.1
Reductions	7,726	1,550	1,200	73.8
Additions	249	9,542	685	2.4
Revised CD Budget	15,010	26,431	1,760	34.7
Amount of shift	-7,477	+7,579	- 102	98.7
% Gain or Loss	-33.3%	+40.2%	-5.5%	---

Note: "Hardware" items include all those for planning or implementation of construction, improvement or rehabilitation of physical facilities. "Software" items are those related to social service provision, technical assistance and training programs. Where there were insufficient details in the "Community Development Programs for the City of Chicago: Preliminary Report" (March 1975), expenditures were tabulated under "Unknown."

Figure 26. ALLOCATION OF COMMUNITY DEVELOPMENT SPENDING IN CHICAGO
($Thousands)

Source: Preliminary Report, March 1975, as above; and "Proposed Community Development Budget Revision," March 22, 1976.

The inclusion of the Model Cities transition in the community development budget, and the spending revisions which the City subsequently made in order to keep Model Cities going, point up an area of considerable difficulty in local control of service expenditures. In the case of Model Cities and other federal programs of the past, phasing out of federal funding has meant that local governments must absorb both the payrolls and the functions the programs supported. The necessity of this is a human and political fact; not only are there clients who have become dependent on the services provided, but there are also workers in need of continued employment. There is just no easy way to terminate a service program, and by this pattern the federal government has contributed heavily to the service burden of Chicago and other cities.

In addition, Model Cities is an especially difficult case because of the role it plays in Chicago's black community. It is a major source of jobs for the black middle class, the main structure of public assistance and responsibility in the most impacted areas of the city, and the main effort at improvement of service delivery to Chicago's neediest people.

And in addition to services, Model Cities has put some money into physical improvements in areas which get little other funding under the City's capital improvement budget.

Thus, on one side of the original Chicago CD budget is the spending for Model Cities and for general software items, just under half of the $43.2 million. On the other side are Chicago's first programs for rehabilitation of abandoned homes and for financial assistance to property owners doing home improvements, plus funding for industrial site improvement and historic district preservation. The City has used community development money to establish a guarantee fund for a program to increase the flow of private mortgage lending into residential neighborhoods. Also included in the hardware category is construction of several neighborhood service centers to be utilized by Model Cities and other city agencies.

In short, Chicago's community development budget includes a variety of activities and a number of creative programs which seem to speak to the City's underlying real property base problems as well as to its immediate service needs.

Yet in a community development budget revision proposed in March 1976, the magnitude of the shift from hardware to software spending is such as to bring into question the City's priorities with regard to community revitalization. Referring back to Figure 26, we can see that some three quarters (73.8%) of the reductions in the original budget came from hardware items; a third of the support for home improvements was cut, a quarter of the rehab funds, half of a pilot project for rehab of multifamily buildings. The additions to the original budget were 97.6 software items. In the revised CD spending plan, only 35 percent of the funding is to go to physical improvements, as against the original 52 percent -- a loss of $7.5 million.

Questions:

What are some of the costs and benefits of this shift? First, clearly the community development money represents additional funding outside the City's operating budget which can be used to supplement the services provided by the City's own resources. In a period of federal withdrawal from compensatory programs, Chicago is carrying on a portion of that task.

Yet at the same time, these service expenditures do not, by and large, reach toward the tangle of economic problems underlying the City's limited resources. Just $100,000 out of the whole $43.2 million CD budget was earmarked for job training in the area of housing rehabilitation, and this was cut in half in the revised budget. Spending more social service dollars in training programs for public works jobs would have the advantage

of helping people develop the skills to improve their own environments and helping communities strengthen the impact of whatever capital inve ment flowed there.

Secondly, the shift toward more software funding did provide cont ued incomes in a period of a severely depressed job market, especially for minority workers. On the other hand, insofar as the continued lack growth in residential property values and the decline of community facilities are not being dealt with, people may have gained in income, but be losing in equity. The situation of city homeowners (and especially of black who cannot easily buy elsewhere) who continue to put their savings and hard work into homes which are losing value because of the disinvestment and decay in the surrounding community, has been described as "climbing up a down escalator." General social service provision does nothing to bring that escalator to a halt.

Finally, the shift toward greater service provision out of the CD funds may have helped some of the people who have lost out on jobs and income because of business relocations. But again, social services tend to foster dependency and to treat symptoms without contributing to a cure. This can be quickly illustrated by reference to three service areas -- healt care, education, and crime. The proportion of the U.S. gross national product spent for medical care has doubled in the last eight years, reaching 9% in 1975, a year during which the average family spent 10 percent of its pre-tax income on medical services (including health insurance premiums). Many economists predict that universal national health insurance would quickly lead to medical costs amounting to 15 percent of the GNP. However, in terms of basic indicators of the effectiveness of medical services -- morbidity and mortality rates -- there has been no significant lowering of the U.S. rates for the past ten years. Not only that, but a recent study has indicated that between 50 and 70 percent of persons who see primary physicians in ambulatory settings do not need medical assistance; they have been called "the walking worried" for whom a visit to the doctor represents the treatment of anxiety. In the field of education, the achievemer scores of American students have declined over the past 14 years even while the dollars spent on education have soared. As for crime, since the passage of the "Safe Streets Act" in the late 1960s the Law Enforcement Assistance Administration (LEAA) has poured some $8 billion into anti-crime programs and hardware but crime and victimization rates have significantly increased during the same period of time.

There is another context in which we can pose the question of hardware versus software spending, one which may better illuminate how fu damental a choice this is. Recently there has been some discussion in housing, planning and policy circles about applying the concept of triage to city neighborhoods. Triage is a term derived from medical practice in crisis situations; patients or victims are divided into three groups:

those who will survive without immediate help, those who probably will not survive even with immediate help, and those in the middle for whom assistance can make the most difference. The available resources are then heavily concentrated on the middle group.

The idea of triage can be applied to neighborhoods, it is said, by grouping them according to their condition -- whether they are "healthy," "declining," or "deteriorated." Some policy analysts have urged that local governments allocate their own spending in the manner of medical emergencies, by leaving deteriorated neighborhoods to die and putting their scarce resources into the middle group. Although how neighborhood condition would be defined is a critical and not well-answered question, the Department of Housing and Urban Development has seemingly endorsed -- or at least publicized -- the general triage concept in materials it has developed to aid local governments in the use of community development funding. 14/ Following the disappointing results of the War on Poverty of the 1960s and in a period of fiscal scarcity, there is a certain pragmatic appeal in allocating resources where they are most apt to have a decisive effect. However, the difficulty (and political sensitivity) of making such decisions cannot be lightly dismissed. To the City's credit, the current focus of service expenditures in the CD budget in deteriorated areas represents some floor of City support. But, at best, this represents a "band-aids on cancer" approach.

To many, the unwillingness of society to face up to its responsibility for the hardcore poor is simply indicative of the outrageous extremes that we as a society are willing to take to avoid actions which might somehow threaten the free enterprise system and the work ethic that supports it. In the 60s, these problems were seen as grounded in racism and social injustice. Responding to the outcries of many groups, the government threw money into programs that did little more than temporarily buy off the poor. With the wisdom of hindsight, it seems evident now that many programs were doomed to failure because there was no economic basis on which they might be perpetuated. And, although blacks and other minorities may continue to use racism and injustice as weapons in their struggle for equality, it is clear that the battle line must be drawn on the economic front on such matters as income, investment and access to capital. There will be no simple solutions to these questions for the issues are complex, but it is where the struggle for understanding and compromise must begin.

14/ See Department of Housing and Urban Development, The Dynamics of Neighborhood Change, December 1975, and Real Estate Research Corporation, Recommendations for Community Development Planning: Proceedings of the HUD/RERC Workshops on Local Urban Renewal and Neighborhood Preservation, 1975.

It will not be enough just to put more or most of the City's own scarce resources into neighborhoods where physical facilities and community fabric are showing signs of wear. We have seen how vital these areas are because of the interrelationships between commercial and industrial facilities and their surroundings, between the Loop's property values and those in the rest of the city, between the loss of middle-income residents and the viability of the whole local economy. If the City must sustain all of its parts to some degree, it also has the responsibility to bring the maximum leverage to bear on drawing private capital back into the middle neighborhoods, where reinvestment might have a decisive impact.

The maintenance of city services and the focusing of public capital improvements in these areas can make a real difference in their attractiveness for private investment. Even within the limits of existing scarce resources, public spending could be allocated equitably and sensitively among neighborhoods.

Even more important than the City's direct expenditures, however, is the role its hardware investments can play in leveraging private lending back into the city. The community development funding has enormous potential in the areas of rehabilitation and property improvement; a commitment to tandem investment -- like the new program in which the City will pay a portion of the interest costs on private home improvement loans -- can have many times the impact of City spending alone. But for it to have maximum effect, community people, business and local government must be working in the same direction. Building or sustaining or revitalizing communities requires the support of all of these. Gathering that support is the task Chicago now faces.

CONCLUSION

There are three major themes which have sounded throughout our consideration of Chicago's fiscal situation and the policy choices which now face us in the context of fiscal scarcity. Each of these themes cuts across the conventional boundaries between economic and social questions, between the public and private sectors, between consumption and investment; each shows that these are not really dichotomies but are components of a larger problem. Therefore, the themes can be a starting point for identifying directions to take in shaping a favorable future for Chicago.

The first theme of the interdependence between the Loop and Chicago's neighborhoods has arisen in several contexts. We have seen that the Loop's tax base growth is increasingly bearing the burden of static property values in the rest of the city; that patterns of commercial and retail facility use reflect the lack of shopping, financial institutions and entertainment in the south and west side areas; that planning to focus resources on the central communities may further undermine the middle-income residential base in other neighborhoods. Most important, we have pointed out that downtown corporations and financial institutions have an economic self-interest in the stabilization and upgrading of neighborhood conditions throughout the city, because both their markets and the value of their equity in Loop facilities depend on healthy neighborhood conditions. It is clear that no possible concentration of investment in the downtown area can effectively protect it from the burden of a decaying neighborhood tax base.

A second major theme is the relationship between economic conditions and the position of Chicago's minority groups. We have seen that certain weaknesses in the city's economy -- the loss of manufacturing jobs, the slowed growth of residential property values -- have a disproportionate effect on blacks and Latinos; for somewhat different reasons, lower and middle-income whites have suffered economically from the same overall pattern. At the same time, as social mobility becomes more difficult because second jobs are lacking and equity in property is losing value, the burden of service demands on the City's scarce resources grows. We need to short-circuit the spiral which reinforces the lack of resources and opportunities in the neighborhoods and to do so in a way which expands choices and furthers equality, while also contributing to a sounder city economy.

Finally, there is a third theme which has informed our whole discussion of fiscal scarcity in Chicago and which is pertinent to the themes of Loop-neighborhood interdependence and racial-economic problems as well. The need for cooperation between government, business and community interests in addressing the problem of fiscal

scarcity is clear. Their mutual dependence in making effective investment decisions, their inseparable roles in strengthening local markets and tax base, their joint interest in sound fiscal management are all points of connection between public and private choices which indicate that there is a need for developing ongoing communication and increased understanding and cooperation between them.

However, there is much in the history of their relationships to make this difficult. Although for many years business and government have cooperated in various ways that have been mutually advantageous, this occured during a time when the "pie" was growing and there was an ever-increasing amount to distribute. However, the "pie" is no longer growing so steadily -- if indeed it is growing at all. We have moved from the politics of distributing more to the politics of dividing less and, as this has happened, many businesses have pursued their self-interests elsewhere. This is having a subtle though still unclear effect on the traditional relationship between government and business.

Over the past twenty-plus years, Mayor Daley has both firmly and effectively exercized political leadership over the city. His administration has been good both for the business community and for a majority of the city's residents. But the Mayor's strong leadership has tended to create a vacuum in initiative in the business community, most members of which are careful not to behave in any manner that might jeopardize their association with City Hall. Members of the business community have proven able to effectively pursue their own self-interests in their negotiations with the City. This is both appropriate and necessary. However, it appears that their self-interests have often been too narrowly defined.

An example of this can be seen in the relationship between the City and a major national retailer. As an incentive to encourage the firm to invest its capital in a new downtown structure, the City allowed the firm to build over a public right-of-way and provided "infrastructure" improvements, such as upgraded water mains and sewers, at City expense. But despite their capital investment downtown, the corporate management seemed not to perceive their role in protecting their downtown equity by also helping to protect the neighborhood tax base; in a neighborhood where their retail outlet was regarded as an anchor of economic stability, they closed it. Regardless of the justification for this decision from a "strictly business" point of view, it is significant that no contact was made with the City to assess the impact this closure might have on the neighborhood or to explore alternatives.

Such instances give rise to complaints that, while many business leaders are civic-minded and individually and collectively contribute to the good of the city, they often fail to understand the nature of many of the city's problems and the constructive role they might play to alleviate them. One lesson that must be learned from New York's example is that the business community, in its own self interest, cannot afford to disassociate itself from these problems; this is especially true of those who cannot move away, i.e., utilities, banks, newspapers, and those whose net worth is largely represented by Chicago real estate.

Except for truly major decisions, especially those affecting the Loop, there is a lack of adequate communication and understanding between the City and business, especially at the middle-management level. But there is also a lack of these between the City, business and neighborhood interests, except within the framework represented by the regular Democratic organization. Outside of that context, and at times even within it, when community residents have sought to protect their interests and get satisfactory results from the City or business, their efforts have frequently resulted in distrust, hostility and stalemate. Deadlocks on such major issues as the Crosstown have serious implications for the city's health.

Yet it is important to note that neighborhood efforts -- as well as the City, business and financial institutions -- have contributed important data and insights to our discussion of the city's financial problems. In their struggles to preserve what they cherish, neighborhood organizations have begun to ask the tough questions about institutional relationships and policies that must be answered if policy discussions are to be based on current realities. Otherwise, proceeding in an informational vacuum, with no crisis to precipitate action, Chicago's gradual deterioration might simply be allowed to continue.

In the course of this booklet, we have sought to identify several major areas of choice which will affect Chicago's financial health. We have indicated some broad directions which public-private-neighborhood cooperation might take in shaping the future availability of resources not only for the City administration in the strictly fiscal sense, but also for Chicago's businesses and people. Our discussions brought to light three areas of choice that we felt to be significant: between capital investment and service expenditures, between Loop focus and the neighborhoods, and between conservation and redevelopment. Although these are not all-or-nothing, either-or choices, the nature of fiscal scarcity requires fully-informed, cooperative evaluation of their relative merits and how policies reflecting those merits might be implemented.

It is our hope that this booklet will help to stimulate a continuing exploration of the choices. If public and private actors, downtown and in the neighborhoods, can begin to analyze the city's problems in shared terms,

we will have taken an important step towards a more effective common commitment to our city's future. Such a commitment, combining self-interest with the good of the city, would be the best possible indication of a sound fiscal future.

For as Whitney Young has said, "We might have come here in different ships, but we're all in the same boat now."

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* denotes Planning Committee members.
** denotes Planning Committee members not present at the colloquium.

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